

## **Semiannual Report to Congress Number 36**

**For the Period April 1, 1996 to September 30, 1996**

### **INSPECTOR GENERAL'S MESSAGE**

While this report focuses on problems that affect HUD operations, it should not be construed as a negative assessment of HUD's overall performance. Indeed, the past few years have seen notable improvements in some aspects of HUD's performance. HUD and the Congress have, for example, moved to change the landscape of failed public housing and to address serious issues relating to the multifamily insured and assisted housing programs.

Under current circumstances, however, the prospects for further improvement are dim. HUD's capability to perform is limited by three fundamental issues that have gone unaddressed and can be expected to become more serious over the next years. Specifically:

- ➡ The number and varied types of HUD programs/initiatives are significantly out of balance with the capability of the constantly dwindling HUD staff to carry out those programs and initiatives.
- ➡ Various components of HUD, especially the Office of Public and Indian Housing and the Office of Multifamily Housing, are not equipped to provide reasonable stewardship over taxpayer funds expended for their programs.
- ➡ HUD's avowed commitment to a "place-based" program delivery approach is, in important respects, inconsistent with HUD's organization and authorities, which follow discrete HUD program lines.

We do not believe that these issues can be resolved through easy or quick fixes. Bringing HUD programs in line with HUD staff capability would undoubtedly require a narrower, more precise definition of HUD's mission; and this would in turn provoke outcries from the many constituencies — both within and outside the Department — that have formed around HUD programs.

Ensuring stewardship and accountability in HUD programs, especially the public and assisted housing programs, needs to start with an acknowledgment that HUD doesn't have and won't have the capability to carefully monitor all aspects of these huge programs. This would have to be followed by an assessment of the risks inherent in various approaches to setting program priorities, and development of systems that accurately measure program performance rather than just regulatory compliance.

Resolving the inconsistencies between HUD's avowed commitment to a place-based orientation and the realities of HUD's program-based organization would again require a clearer definition of HUD's mission, potentially followed by a major shifting of authorities within the Department.

In sum, resolution of these three issues would constitute a substantial agenda for both HUD and the Congress. We urge adoption of this agenda, on the grounds that it is fundamental to making HUD the excellent performer that we all want the Department to be.

Susan Gaffney  
Inspector General

# HUD Management Issues



During this period, the HUD OIG issued reports on the Fiscal Year 1995 financial statements of the Government National Mortgage Association (GNMA), the Federal Housing Administration (FHA), and HUD as a whole. These reports address the traditional financial audit issue of whether the financial statements are presented fairly, but they also assess the adequacy of the entities' internal control systems and compliance with laws and regulations. When taken in conjunction with other HUD OIG work, the reports provide a comprehensive evaluation of Departmental management.

Results, in summary, were as follows:

- ➔ An outside accounting firm engaged by the HUD OIG found that the GNMA financial statements were presented fairly in all material respects. Further, the audit found no material internal control weaknesses, nor any material instances of noncompliance with laws and regulations.
- ➔ The same outside accounting firm found that the FHA financial statements were also presented fairly in all material respects. However, the audit identified material weaknesses in FHA's system of internal controls and reported that FHA was not in strict compliance with the Credit Reform Act of 1990.
- ➔ After auditing HUD's consolidated financial statements, the HUD OIG was unable to express an opinion on their reliability. The audit also identified a series of material weaknesses in the Department's systems of internal controls, and concluded that the Department was not in full compliance with the Federal Managers' Financial Integrity Act (FMFIA), the HUD Reform Act, or, as noted above, the Credit Reform Act of 1990.

The following paragraphs discuss the reasons that the HUD OIG was unable to express an opinion on the reliability of the HUD financial statements, as well as the other internal control weaknesses disclosed in the FHA and HUD financial statement audits.

## Disclaimer of Opinion on HUD's Financial Statements

HUD OIG Auditors found two problems potentially affecting the reliability of HUD's consolidated financial statements: a lack of reasonable assurance that HUD rental assistance payments are being made to eligible persons in the correct amounts; and a failure to periodically reconcile HUD's accounting records with Department of the Treasury records.

## Rental Assistance Payments

HUD currently spends more than \$18 billion annually in rent subsidies to assist 4.4 million low-income households through a variety of programs, including Public Housing and Assisted Housing. While tenant income is a major factor affecting eligibility and the amount of the subsidies, admission and subsidy determinations are almost entirely dependent on self-reported income.

A study by HUD's Chief Financial Officer (CFO) estimated 1995 excess rental payments at \$839 million. However, this estimate is based only on under reporting of income from reported income sources; the study did not attempt to identify income from sources that were not disclosed. The CFO has argued that the same study has reported significant underpayments and that the "net overpayment" amount, which would be substantially less, represents an acceptable level of risk. The HUD OIG rejects this argument as irrelevant to the issue of ensuring that the right people receive the right amounts of subsidy.

In the past three financial audits, the HUD OIG has urged HUD to get a better estimate of the size of the problem, in order to decide what control mechanisms are called for. In Fiscal Year 1997, the Office of Public and Indian



Housing has initiated its first nationwide statistical sample income match to reliably estimate the size of the subsidy overpayment issue. The Office of Housing is participating in this initial nationwide income verification.

## Reconciliations of HUD's Accounting Records with Treasury

Over the past 2 years, there has been a significant increase in the unreconciled differences between HUD and Treasury accounting records. HUD believes that difficulties associated with major system conversion efforts for the Section 8 Program have contributed to this problem.

As of September 30, 1995, the Department's annual contributions balance for the assisted housing appropriation account exceeded the balance on Treasury's records by \$1.9 billion. For financial statement purposes, HUD adjusted the fund balance with the Treasury account to agree with Treasury's records without documenting the basis. This unacceptable practice nullifies the internal controls provided through reconciliations.

## Other Material Internal Control Weaknesses

After we raised this issue, the CFO's Office was able to reduce the net unreconciled balance to \$190 million, which the CFO argues is not a material amount in relation to HUD's overall Fund Balance with Treasury. Our position is that a net difference could obscure several material offsetting amounts. We believe HUD needs to identify and resolve all Fund Balance differences with Treasury monthly. This includes promptly determining the reasons for unexplained differences. Moreover, controls over data conversions need to be strengthened. Currently, HUD has instituted stronger reconciliation procedures and believes that it has resolved the Fiscal Year 1995 discrepancy. HUD OIG will evaluate the effectiveness of these changes as part of the ongoing Fiscal Year 1996 audit. Despite improvement efforts, HUD still suffers from material weaknesses in its financial management systems, resource management, and program monitoring/FHA loss mitigation activities. Taken together, these problems seriously undermine the ability of HUD staff — no matter how dedicated and hard-working — to carry out HUD's mission in a reasonably effective and efficient fashion.

## Financial Management Systems

Since 1989, the Department has reported in its FMFIA reports that it does not have an efficient, effective, and integrated financial management system that can be relied upon to provide timely, accurate, and relevant financial information and reports to management. Although progress has been made by HUD in implementing new integrated financial management systems, lack of effective systems is still reported as a material nonconformance in HUD's FMFIA report.

While HUD's commitment to build needed financial management information systems remains strong, progress is excruciatingly slow. Of the 15 system development efforts being tracked by HUD OIG, only one (Demolition/Disposition) portion of Public and Indian Housing's Integrated Business Systems (IBS) has become operational since our last Semiannual Report. However, the Capital Grant component of IBS dropped back to planning because reinvention legislation has not yet been enacted. The status of each project is as follows:

### *Systems with Operating Components*

PIH HUDCAPS (Budgeting and Accounting for Section 8 Tenant-Based Assistance Programs)



Administrative Accounting  
Housing TRACS (Budgeting and Accounting)  
PIH IBS, Demolition/Disposition

***Systems in Pilot Testing/Limited Use***

Community Planning and Development's (CPD) Integrated Disbursement and Information System (IDIS)

***Systems Under Active Development***

Agency Accounting Interfaces  
FHA Mortgage Insurance Systems (FHAMIS)  
-Single Family System

***Projects Still in the Planning Stage***

Grants Management  
Budget Formulation/Operating Planning  
FHA Mortgage Insurance Systems (FHAMIS)  
-Multifamily System  
-Comptroller  
-Operations

PIH IBS:

-Operating Subsidies  
-Customer Services  
-Capital Fund

Much work remains to complete the development of HUD's financial and programmatic systems. Of particular concern is the development of useful information systems for Multifamily Housing Programs. Despite numerous efforts during the past 20 years, the Department still does not have a dependable data system that provides timely and accurate information for the Office of Housing to manage its multifamily assets and insurance in force. These assets are valued at more than \$50 billion.

In prior years, it has been noted that resources needed to develop state-of-the-art systems are lacking because of departmentwide budgetary constraints or the existence of other critical system priorities at HUD. As a result, FHA's past systems plans centered on enhancing existing systems, and actual implementation of the plans was often a long, tedious process that did not produce timely results. Problems such as fragmentation and inaccessibility of data, poor design and testing, and inadequate documentation, training and technical support continue to plague the patchwork of information systems supporting multifamily operations.

To solve these systems development problems, we recommended in our September 30, 1996 "Management Study: Multifamily Information Systems" (see Chapter 5, Audits, under "Administration") that the Office of Housing consider increasing qualified systems staff, introduce professional project management practices and fund development projects on a life-cycle basis. It should also consider using "Rapid Application Development" techniques to reduce development time and work with the Office of Information Technology to improve user support in the field.

In reporting on the results of the audit of FHA's financial statements, the outside accounting firm also noted that FHA must place continued emphasis on improving its accounting and financial management systems. Specifically, FHA needs to (1) enhance the general ledger and subsidiary systems to facilitate better case level reporting for compliance with the Credit Reform Act; (2) develop an integrated multifamily system that allows field offices to more effectively and efficiently monitor insured and Secretary-held portfolios (including early warning and credit



risk modules); (3) fully implement an “umbrella” system at FHA that will integrate all financial management systems; and (4) enhance systems for reporting by program, geographical area, or other relevant components.

Auditors also cautioned this period that, when systems are placed into production, HUD must provide adequate controls over software changes and access. The financial statement audit and our previous audit report on software maintenance emphasize the need to establish a software configuration management program. This program would not only minimize the risk of introducing errors and/or using the wrong version of the software, but is a key to fix the “Year 2000” problem. If date fields in current programs, many of which are two digits, cannot accept the year 2000, numerous programming errors will likely result.

Auditors also emphasized that HUD must fully implement the system security software package it has already purchased. Despite repeated reporting of this condition in past financial audits, the majority of HUD’s individual applications systems have yet to be placed under the security software. Access to critical and sensitive financial systems must be limited to users with legitimate need so as to minimize the risk of systems errors, failures and unauthorized use.

## Resource Management

HUD’s staffing has declined without a corresponding reduction in workload or modification in program delivery systems. Since 1980, HUD’s authorized full-time equivalent staff has decreased 36 percent, from 16,500 to 10,494. Moreover, HUD is targeted to be at a 7,500 staff level by the end of Fiscal Year 2000. Yet, since 1980, HUD has not only experienced growth in many of its existing programs, but has added a number of new activities. Reducing resources irrespective of workload seriously undermines programmatic controls, particularly when coupled with inadequate financial systems. HUD needs to deal with inevitable staff decreases by completing development of a comprehensive strategy to manage its resources. In formulating its budget, HUD does not identify resource needs based on a detailed analysis of program functions, processes and anticipated workloads. We have reported our concern with inadequate resource management since our Fiscal Year 1992 financial audits.

While much remains to be done, to HUD’s credit, management has established program management plans and priorities, and a *Strategic Performance System* to monitor performance against those plans and priorities. The system is useful in conveying management strategies and priorities, and for periodic reporting of progress and accomplishments against major objectives. However, the system’s component that estimates staff needed to achieve priority goals has generally not been used.

HUD has implemented or proposed implementation of certain changes in its programs and operations that should reduce staffing needs. However, the precise dimensions of the staffing impact remain largely undefined. These programmatic/operational changes include the following:

- ➔ Ongoing efforts to streamline headquarters staff and add greater responsibility to field staff.
- ➔ Several billion dollars of HUD-held mortgage note sales that will significantly reduce staff needed to manage these portfolios.
- ➔ The consolidation of HUD’s single family loan servicing, personnel and accounting systems at a limited number of field locations.
- ➔ The move toward consolidated planning for CPD programs where communities submit a single comprehensive strategic plan as a controlling mechanism for funding a variety of CPD programs.
- ➔ Pending mark-to-market proposals to restructure a significant portion of the multifamily housing portfolio.

In reporting on the results of the audit of FHA’s financial statements, the outside accounting firm expressed similar concerns about FHA resource management. Specifically, FHA’s staffing levels, personnel skills versus skill



needs, and training resources prevent FHA from directing adequate resources to loss mitigation functions, managing troubled assets, overseeing outsourced functions and implementing new automated systems for FHA.

## Program Monitoring and FHA Loss Mitigation Activities

HUD provides grant and subsidy funds to public and Indian housing authorities (PHAs) and multifamily project owners, which, in turn, provide housing assistance to benefit primarily low-income households. Weaknesses exist in HUD's control structure and the effectiveness of its monitoring such that HUD cannot be assured that these funds are expended in accordance with the laws and regulations authorizing the grant and subsidy programs.

➡ *Public and Indian Housing does not have the capacity to effectively oversee housing agencies.*

HUD has limited capacity to effectively oversee the 3,300 PHAs that expend \$13 billion in federal funds annually. By law, HUD has responsibility for ensuring that these funds are spent on eligible activities and that intended program objectives are being met. Our greatest concern is that the needs of low-income households are being served with decent, safe and sanitary housing.

HUD identifies PHAs with the greatest need of attention through risk assessments. The risk assessment process is used to develop a plan which identifies PHAs in need of on-site monitoring reviews. We found that planned reviews were not being completed, primarily due to inadequate administrative resources. Our audit work found that four of the six offices we reviewed were unable to perform on-site monitoring in accordance with their risk based monitoring plans.

Because of the lack of staff, HUD has looked to other measures of PHA performance. The Public Housing Management Assessment Program (PHMAP) is used to measure PHA performance in major operational areas. HUD has used PHMAP scores to allocate limited monitoring resources and as an aid in measuring HUD staff performance. We have pointed out our concern that HUD has little control over the integrity of the PHMAP scoring process since it is largely a self-scoring process. While HUD can validate the scores through confirmatory reviews, our audit found that during Fiscal Year 1995, the offices we tested performed confirmatory reviews on only 29 of their 762 PHAs' PHMAP certifications. The reviews resulted in lower scores for 15 of those PHAs. Another major concern with PHMAP is that it does not reflect the condition of the housing stock.

Another means to monitor PHA performance is the use of audits performed by independent auditors (IA) pursuant to the Single Audit Act. We encountered a number of issues that impeded HUD's ability to place appropriate reliance on the IA reports. First, HUD does not have assurance that IA audits are adequately addressing those compliance issues of greatest concern to HUD. Managers in the field offices we tested were concerned with the quality of the IA reports their offices receive. Our review of 39 PHA audits, including the IAs' supporting work, found what we consider to be incomplete testing on 20 of the audits. Secondly, IA reports are often untimely. These reports are not required to be submitted to HUD until 12 months after the PHA's year end. Even with this long time frame for submission, many reports are still not received on time.

➡ *Improvements are needed in multifamily project monitoring to ensure that subsidy funds are appropriately spent.*

The Office of Housing needs to improve the effectiveness of multifamily project monitoring and monitoring of State Housing Finance Agencies (SHFA) that administer assisted housing contracts on HUD's behalf. While HUD has begun using contractors to assist in performing project monitoring functions and has issued an overall strategy for managing the assisted housing portfolio, we found that the monitoring of multifamily projects is inadequate to assure that subsidies are provided on behalf of tenants who meet HUD eligibility requirements and that these subsidies ensure decent, safe and sanitary housing. Also, HUD's monitoring of Section 8 contract administration by the SHFAs is inadequate.



HUD subsidy funds are provided to approximately 33,000 private and nonprofit project owners. Unlike most other HUD programs, these subsidies are provided through direct contracts with multifamily project owners; there is no PHA or local government intermediary. Since there is no intermediary, HUD has more responsibility for ensuring that project owners provide support only to eligible tenants and that they comply with the contract and program laws and regulations. This is a significant responsibility because of the sizable number of project owners HUD must monitor.

Overall, we found that project monitoring of troubled and potentially troubled assisted projects was inadequate. We noted audited financial statements that were not submitted and physical inspections, management reviews and occupancy reviews that were not performed by the field offices. In addition, field offices were not adequately following up to resolve identified deficiencies.

➔ *Monitoring of insured mortgages must place more emphasis on early warning and loss prevention*

The timely identification of troubled insured mortgages is a key element of FHA's efforts to target resources to mortgages that represent the greatest financial risk to FHA. As troubled insured mortgages are identified, the initiation of effective asset management techniques by well-trained specialists can mitigate eventual claims or the increased costs associated with servicing non-performing insured mortgages. FHA needs to focus more attention on monitoring its insured mortgages proactively, specifically addressing projects and mortgage notes in or nearing default with the ultimate goal of reducing claims and losses.

➔ *FHA must continue actions to quickly resolve Secretary-held multifamily and single family mortgage notes and minimize additional mortgage note assignments.*

FHA must continue its current initiatives to quickly resolve its portfolios of single and multifamily Secretary-held mortgage notes through sale, portfolio reengineering, restructuring, workout, or some combination of these, and to minimize additional mortgage note assignments. Servicing and managing defaulted mortgage notes assigned to FHA requires considerable staff time, is not a part of FHA's principal line of business (providing mortgage insurance), and diverts scarce resources from monitoring the insured portfolio.

## Other Internal Control Reportable Conditions

Apart from the material weaknesses in HUD's system of internal controls, the audits of HUD's consolidated financial statements and the FHA financial statements identified several other reportable conditions. These reportable conditions are significant deficiencies in the design or operation of the internal control structure. A summary of these reportable conditions is as follows:

➔ *HUD needs to continue efforts to develop improved performance measures.*

The CFO Act requires the inclusion of performance measures about the efficiency and effectiveness of agency programs in agency annual reports. While steps are underway to increase the use of performance measures in managing HUD programs, thus far only basic performance measures have been gathered for some programs. We have continually noted problems with the reliability of systems used to measure performance. HUD's reinvention proposals and the Government Performance and Results Act demand that the Department place increased emphasis on performance measures.

➔ *More effective implementation of HUD's Management Control Program is needed*

The Department's 1995 FMFIA Report to the President and the Congress asserts that, with certain exceptions, HUD has adequate systems of internal control and complies with financial systems requirements. We could not agree with





the conclusions reached. Our report cites material weaknesses that should have been disclosed in the Secretary's report.

Further, HUD has failed to implement a program of front-end risk assessments for new or substantially modified HUD programs. Such assessments should have been a key mechanism to prevent the growing imbalance between the number of HUD programs and the level of HUD resources available to carry those programs out.

➡ *The Office of Housing needs to continue efforts to improve the subsidy payment process*

TRACS contains information on tenants, owners and subsidy contracts and is used to help validate subsidy calculations as a post payment review process. However, until TRACS is fully implemented, HUD field offices will need to continue labor intensive reviews of subsidy payment requests which some offices have not been able to complete due to resource limitations.

➡ *The Office of Community Planning and Development (CPD) needs to complete implementation of its new strategy for overseeing grantees*

During Fiscal Year 1995, CPD was in the process of shifting its compliance oriented monitoring strategy to one focused on measuring and improving grantee performance. During this transition, CPD did not implement a monitoring process that ensured that grantee funds were spent on eligible activities.

➡ *HUD needs to determine the amount of unexpended commitments under the Public Housing Low-Rent Loan Program.*

HUD does not have reliable data on its remaining contractual commitments nor is it able to determine the correct amount of unexpended debt service budget authority that can be rescinded under this program.

➡ *HUD needs to improve systems security, disaster recovery, operating systems documentation and change control.*

HUD's automated information systems support all facets of agency programs, which process \$25 billion in annual disbursements. HUD's progress in correcting identified security weaknesses remained slow during Fiscal Year 1995.

➡ *HUD needs to strengthen controls over HUDCAPS.*

HUDCAPS is the tenant-based Section 8 Program installed at all Public and Indian Housing field offices in 1995. Our review of the systems application and internal controls disclosed several weaknesses with the conversion of Section 8 data and the handling of critical and sensitive data.

➡ *HUD needs to correct problems in its loan accounting system*

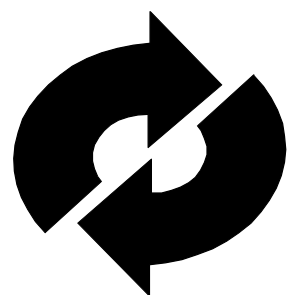
In converting to this system in 1993, HUD did not operate the new system in a parallel mode during testing. Consequently, several problems with data quality were not identified and corrected.

➡ *Access security in HUD's disbursement system needs to be strengthened*

We identified several weaknesses that expose HUD to the risk of unauthorized disbursements in the automated payments system.



# Audit Resolution



## Audit Resolution Activities

The purpose of HUD OIG audits is to bring about positive change in HUD programs and operations. Audit resolution is the process by which the HUD OIG and HUD management agree on the changes to be made, and HUD management then makes the changes. To illustrate audit resolution at its best, during this period the Secretary took immediate and dramatic action in response to HUD OIG audits of the City of Camden New Jersey's Low-Rent Housing and Community Development Block Grant (CDBG) Programs. The report on the Low-Rent Housing Program was completed in July 1996 and the report on the CDBG Program was completed in September 1996. During the audits, we kept management apprised of the problems we were identifying. Confronted with serious audit concerns about the city's administration of HUD programs, the Secretary immediately started working with city and state officials to establish a nonprofit corporation to operate those programs. Less than 2 weeks after issuance of our report, this nonprofit corporation was formed.

HUD action on audits has not always been so swift. This year, however, saw significant progress as a result of the combined efforts of the Deputy Secretary, the Chief Financial Officer (CFO), and the HUD OIG. The number of audits lacking management decisions 6 months after audit issuance was reduced from 9 last year to 2 this year.

This Chapter looks behind the aggregate numbers on audit resolution to describe some of the more significant issues where action on audits was dilatory at best.

## Delayed Actions

As a separable audit resolution matter, this period the HUD OIG audited nine HUD field offices to determine whether their reported implementing actions had actually fixed the problems identified through audit. We found problems at four of the nine offices. HUD had declared action complete on 15 recommendations before corrective actions were taken. Also, in three offices, recommendations were closed without documentation of the corrective actions. We urged the CFO, who has responsibility for the integrity of the Department's audit resolution process, to take corrective actions. In addition, the HUD OIG has committed to performing an increased number of corrective action verification reviews. Governmentwide and HUD policy calls for the HUD OIG and program officials to reach management decisions (corrective actions to be taken by specified dates) within 6 months of audit issuance. Discussed below are several examples of prolonged action in bringing audit recommendations to closure.

➔ *HUD Consolidated Financial Statements for Fiscal Year 1993* issued June 30, 1994. The CFO did not provide proposed management decisions until almost 10 months after report issuance and the response did not address the recommendations. The next response was received over 18 months after issuance and was also insufficient to address the recommendations. The Inspector General became personally involved in the matter, which resulted in a referral to the Deputy Secretary.

The issue referred to the Deputy Secretary in March 1996 concerned the extent of the CFO's involvement in cross-cutting issues. The two issues that the HUD OIG believed needed CFO coordination were implementing a tenant income matching program, and establishing appropriate controls to ensure the reliability of performance measurement data.



In September 1996, 2 years and 3 months after report issuance, an acceptable course of action was established to address performance measurement data. However, a decision on the corrective action necessary to address implementing a tenant income matching program is still outstanding. (Report No. 94-FO-177-0003)

- ➔ *HUD Consolidated Financial Statements for Fiscal Year 1994* issued August 25, 1995. The CFO did not provide any proposed management decisions until 6 months after report issuance. The proposed actions were not acceptable. The disagreement involved the extent to which the CFO should be involved in cross-cutting issues pertaining to Front-End Risk Assessments for new programs. While the CFO believed their office's responsibility should be limited, the HUD OIG believed these issues required CFO leadership or direct participation. The matter was referred to the Deputy Secretary.

At a meeting with the Deputy Secretary on April 9, 1996, general agreement was reached on the necessary actions. However, the CFO did not provide a specific plan for corrective actions until September 1996, over 1 year after report issuance. (Report No. 95-FO-177-0004)

- ➔ *Housing Authority of the City of LAS VEGAS*, issued February 23, 1996. During this audit, we reported that the Housing Authority continued to use federally assisted low-rent funds to support other non-assisted housing projects. This practice was first reported by the HUD OIG more than 7 years ago. In 1989, we identified that the Authority had misused over \$6 million. Three years later, in 1992, we showed that the Authority continued to improperly use federal funds, increasing amounts due to over \$6.5 million. Seven years later, in 1996, we found that the improper practices continued, increasing the ineligible expenditures to over \$7 million.

HUD management and the Authority did not negotiate a viable repayment plan and no action was taken to require repayment. Four months after our most recent report, and nearly 7-1/2 years since our first report, the Acting Assistant Secretary for Public and Indian Housing proposed that the debt of over \$7 million be forgiven. After a meeting between the Inspector General and the Acting Assistant Secretary, agreement was reached that funds should be repaid. This management decision was made 7 years and 7 months after our original report disclosed the problem. (Report Nos. 89-SF-209-1004, 93-SF-209-1801, and 96-SF-204-1003)

- ➔ *Credit Finance Corporation DALLAS, TX*, issued October 16, 1995. Four months after report issuance, management provided us with an unacceptable response. The disagreement involved whether approximately \$101,000 in questioned costs should be repaid to the project or HUD. HUD OIG believed amounts should be repaid to HUD because the mortgage note was sold from HUD's portfolio. Bidders would normally consider this contingent liability in their offer. The program office believed amounts should be returned to the project because improper expenditures are normally returned to the project to sustain the mortgage. The matter was referred to the Deputy Assistant Secretary for Multifamily Housing. The Deputy Assistant Secretary supported the HUD OIG's position and a management decision was reached 7 months after report issuance. (Report No. 96-FW-214-1001)
- ➔ *North Carolina Housing Finance Agency (NCHFA)*, issued April 28, 1994. The report discussed the NCHFA's practice of requesting excess advances of Section 8 funds. NCHFA earned more than \$400,000 in interest on these funds. When our report was issued, management disagreed that interest needed to be returned to the U.S. Treasury.

We referred this matter to the Assistant Secretary for Housing. In 1994, the Assistant Secretary agreed that the interest earned should be returned to the U.S. Treasury. Two years later, the funds have not been returned and the Assistant Secretary has reversed his position. The matter was referred to the Deputy Secretary in July 1996 for a final decision, but to date no ruling has been provided. The HUD OIG's position is supported by HUD's General Counsel as well as Comptroller General Decisions. (Report No. 94-AT-203/251/256-1017)

- ➔ *DELAWARE COUNTY, PA Community Development Block Grant Program* issued June 12, 1990. Funds totaling over \$5.6 million were used for ineligible or questionable activities. Four months after report issuance, management agreed that the \$5.6 million should be repaid. In addition, in March 1992 testimony before the



Subcommittee on Employment and Housing, the former Assistant Secretary for (CPD) promised to demand repayment.

CPD field management has asked CPD headquarters several times during the last 6 years to sanction the county by withholding grant payments in order to bring the matter to closure. However, headquarters had been unwilling to impose a sanction. Six years after report issuance, the Inspector General convinced the Assistant Secretary for CPD that action was needed to resolve the audit, including administrative sanctions if necessary. As a result, the county is now cooperating with the Department and is making repayments. About \$1.8 million remains outstanding. HUD anticipates final resolution within the next month. (Report No. 90-PH-249-1014)

- ➔ *City of NEW YORK Department of Housing Preservation and Development* issued January 29, 1993. About 3 months after the audit was issued, management agreed that over \$22 million of ineligible costs should be repaid to the city's CDBG Program. Two years after report issuance, management wanted to accept a city proposal to substitute city expenditures for the ineligible costs. Office of General Counsel legal opinions dating back to 1979 would not permit the substitution of costs. Management sent the matter to headquarters for review and requested a new legal opinion. The new legal opinion, received in August 1996, affirmed the 1979 legal opinion. Consequently, 3 years after report issuance, management has just demanded that the city repay \$5 million, but has deferred requiring repayment of the remaining \$17 million pending a further review. (Report No. 93-NY-241-1002)
- ➔ *City of BALTIMORE, Community Development Block Grant Program* issued March 4, 1992. Ineligible costs totaling over \$4 million resulted from the city's not crediting the program for revenues generated by code enforcement activities. Unsupported costs of \$600,000 related to lack of evidence that the program achieved its intended purpose. Three months after report issuance, HUD agreed to seek repayment. However, management did not take collection action. Instead, 4 years later, we were notified that management no longer agreed that the city needed to repay the program, because revenues generated by code enforcement activities are not appropriate credits to the CDBG Program. HUD OIG does not agree and has elevated this matter to the Deputy Assistant Secretary for Grant Programs. (Report No. 92-PH-241-1003)
- ➔ *Housing Authority of BALTIMORE City*, issued September 23, 1994. Serious procurement deficiencies were noted in the audit report, including the Authority's award of over \$25 million for noncompetitive vacant unit rehabilitation contracts through its Vacancy Special Funding Program. HUD OIG's inspection of a sample of the contracts disclosed that the Authority paid more than \$700,000 for excessive materials, overpriced work items, and work not completed. As a result of our work, several individuals were indicted and convicted, including former employees and contractors.  
  
Three months later, in January 1995, management agreed that funds identified in the audit report needed to be repaid by the Authority; however 2 years after reported, no repayments have been made. (Report No. 94-PH-201-1016)
- ➔ *City of DETROIT, Community Development Block Grant Program* issued June 22, 1995. Subrecipients under the city's program did not carry out their funded activities, nor could they support expenditures. Further, the city did not have adequate monitoring procedures for subrecipient activities. Five months after the audit was issued, management agreed that \$103,000 needed to be repaid to the program and that the city needed to establish procedures to monitor subrecipients. Management again advised the city in July 1996 to make repayment. However, over 15 months after report issuance, no payments have been made. (Report No. 95-CH-241-1007)
- ➔ *CINCINNATI, OH Community Development Block Grant Program* issued December 30, 1993. The city did not maintain documentation that \$512,000 in economic development loans to four companies met a national objective. Three months after report issuance, management agreed that amounts needed to be repaid or documentation provided that a national objective was met. Management agreed to complete actions by March 1995. While documentation was received showing that three of the four loans met a national objective,



management has extended the time given the fourth company until the year 2000 to demonstrate a national objective has been met. (Report No. 94-CH-241-1010)

- ➔ *Home Investment Partnerships Program, City of NEW ORLEANS, LA*, issued March 24, 1995. We recommended that HUD take administrative actions against contractors who performed unacceptable rehabilitation work under the program. Four months after the audit was issued, management agreed to take administrative sanctions. However, 18 months after report issuance, management has yet to take action against the contractors. Consequently, these disreputable firms are free to do business in HUD funded programs. (Report No. 95-FW-255-1007)
- ➔ *MICHIGAN State Housing Development Authority*, issued November 10, 1993. Five months after report issuance, management agreed that the Authority needed to establish controls over amounts maintained in their subsidy reserve account. The Authority had over \$7 million in its reserve account which could have provided assistance to approximately 193 more families. Although HUD issued guidance in 1990 which provided authorities with a manual method to control the amounts maintained in their subsidy reserve accounts, HUD did not require the Authority to use the established guidelines. Instead, HUD gave the Authority time to develop a computer system to control and monitor amounts in the reserve accounts. Almost 3 years later, the system is incomplete and HUD has little assurance that funds are being used in the most effective manner. (Report No. 94-CH-203-1004)
- ➔ *Departmental Accounts Receivable Tracking/Collection System (DARTS)*, issued December 16, 1994. Six months after the audit was issued, the CFO agreed to provide training and guidance to system users in 1995 so that the system could be used as intended. Almost 2 years after our report, the CFO has not provided training or guidance to system users because of reorganizations and changes in the process. Without proper instruction, staff cannot be expected to effectively use the system. The HUD reorganization has little bearing on the need to provide necessary training and guidance to current users. (Report No. 95-IS-166-0001)



# Operation Safe Home

Operation Safe Home is a campaign, initiated in February 1994, to combat crime affecting HUD housing. Operation Safe Home focuses on three major types of wrongdoing that undermine HUD programs — violent crime in public and assisted housing, fraud in public housing administration, and equity skimming in multifamily insured housing.

Operation Safe Home differs from traditional HUD OIG work in that it is highly targeted and proactive; it employs non-traditional techniques; and it represents a long-term, sustained commitment to reducing the targeted vulnerabilities.

Work undertaken and progress made in each of the three areas of Operation Safe Home are detailed in the remaining pages of this chapter.



## Combatting Violent Crime in Public and Assisted Housing

One of the principal goals of Operation Safe Home is to focus the attention of federal, state and local law enforcement on public and assisted housing developments. Despite the huge federal investment, much of this housing has become a major area for violent crime — with law-abiding residents, many of them elderly, locked in their homes, terrorized by gangs and drug activity.

The HUD OIG has pursued this goal by engaging in the law enforcement task force operations and the witness relocation efforts described in this chapter. At the same time, HUD OIG Special Agents have assumed increasing responsibility for working with housing management and residents to insure that progress attained through law enforcement is sustained over the long term.

### Task Force Operations

HUD OIG is working closely with federal, state and local law enforcement agencies to identify and follow through on cases involving drugs and violent crimes, outstanding arrest warrants and parole violations. Working with the U.S. Attorney's Offices, HUD OIG has been influential in using various statutes to ensure that maximum penalties are imposed when cases go to trial or when plea bargaining is involved. During the first two years of Operation Safe Home, HUD OIG provided very limited funding for task force operations.

Since the initiation of Operation Safe Home HUD OIG Special Agents have participated in 130 joint federal, state and/or local law enforcement initiatives around the country. In the FYs 1996 and 1997 budgets, HUD OIG received \$2.7 and \$5.0 million, respectively, for this purpose. These funds are being used by the various federal, state, and local task forces to acquire needed equipment, purchase contraband that will be used as evidence, pay necessary operational expenses when there is no other funding available for such expenses, and fund post enforcement activities.

The federal agencies cooperating with Operation Safe Home include the Federal Bureau of Investigation (FBI), the Drug Enforcement Administration (DEA), the Bureau of Alcohol, Tobacco and Firearms (ATF), the U.S. Secret Service (USSS), the U.S. Marshals Service (USMS), the U.S. Postal Inspection Service (USPS), U.S. Customs Service (USCS), U.S. Immigration Naturalization Service (INS), and the Department of Justice (DOJ). Law enforcement personnel from individual states, counties, cities, and housing authorities are also active participants on the task forces. Results from task force operations are reflected in the table below:

Activity	Current Reporting Period	Cumulative to Date
Arrested	2,245	10,259
Seized Weapons <sup>1</sup>	370	1,216
Cash	\$1,105,894	\$2,418,065
Search Warrants	270	1,286





<sup>1</sup> Includes 27 assault weapons and shotguns seized during this reporting period, for a total of 79 to date.

This period, Attorney General Reno and Secretary Cisneros explored ways to enhance Operation Safe Home efforts in certain troubled housing authorities. As a result, the U.S. Attorneys in six cities (SAN FRANCISCO, PHILADELPHIA, CHICAGO, DETROIT, NEW ORLEANS, and WASHINGTON, DC) were asked to collaborate with a broad range of federal, state, and local officials in developing and leading anti-violent crime initiatives in public housing. By September 30, 1996, U.S. Attorney-led initiatives were underway in each of the six cities.

## ***California***

There are six localities with established task forces in the State, and efforts are underway to address increased juvenile gang activity in another. During this reporting period, the following were the most active.

The SAN FRANCISCO Fugitive Recovery Enforcement Team (FRET), comprised of members of various federal and local law enforcement agencies, conducted three fugitive sweeps that resulted in 142 arrests. HUD OIG Special Agents assisted the San Francisco Housing Police Task Force unit in the arrest of 24 at several public housing complexes. In addition to the fugitive sweeps, the Housing Police Task Force, with HUD OIG as an active member, has provided a substantial amount of post enforcement activity in areas with a high concentration of criminal activity through its nonprofit corporation, "Operation Dream." Picnics, ski trips, major league ball games, and award ceremonies are just a few of the activities that they have sponsored. HUD OIG has also joined the San Francisco Police Department in developing "Operation Heart," a community policing strategy that involves four major steps in combatting crime and improving the quality of life in public housing communities. The four steps are: planning, enforcement, maintenance and follow-up. It is a program designed to bring together the collective efforts at all levels of government in order to reduce the criminal activity and change the perception of public housing in San Francisco.

The LOS ANGELES Housing Task Force, comprised of the Housing Authority Police Department, the Los Angeles Police Department's Crash Team, HUD OIG, and the FBI, arrested 8 individuals and confiscated cocaine, 9 weapons, ammunition, computer equipment, over \$119,000 in cash, and pirated video tapes following the execution of search warrants at public housing complexes in the Watts area of the city.

During a 2-month investigation of narcotics trafficking and parolees living in Section 8 units in HAYWARD, HUD OIG, the Hayward and Newark Police Departments, the Alameda County District Attorney's Office, the State Parole Board, and the USMS were responsible for the arrest of 13 individuals and the eviction of those who were tenants. In addition, four welfare fraud cases and four Section 8 fraud cases have resulted from evidence seized during this operation.

## ***Colorado***

Approximately 100 individuals have been arrested as a result of the various task force operations in and around DENVER. A major effort by a task force comprised of the USPS, DEA, and HUD OIG crippled a cross-country drug ring by arresting the suspected leader and eight members of the ring that moved huge amounts of cocaine through the Denver International Airport and over the highways from Mexico. They were credited with transporting 10 to 15 kilograms of cocaine into Colorado once or twice a month and are believed to be the source of drugs that ultimately went to street dealers within and around public housing complexes. A HUD OIG Special Agent worked closely with DEA to bring this matter to fruition.

In addition, the City of Denver has created a Safe City Office as a component of the Office of Public Safety. It will focus on a community based process to help the city address violence by and against youth. HUD OIG is



coordinating with this newly created office to develop post enforcement activities within Operation Safe Home areas.

## ***Connecticut***

Two task forces are operational in HARTFORD. One, comprised of the Hartford Police Department, the CT State Police, and HUD OIG, used undercover buys that led to the arrest of seven individuals. Two guns in the possession of the *Savage Nomads* street gang were seized. Most of the activity occurred in or around the Dutch Point and Martin Luther King public housing complexes.

Members of the Hartford Police Department Vice and Narcotics, Crime Suppression, along with HUD OIG, conducted high visibility operations in several public housing complexes that resulted in 24 arrests on various charges involving possession and distribution of narcotics.

## ***District of Columbia***

Operation Safe Home has reached into the Southeast, Northwest, and Northeast quadrants of WASHINGTON, DC. Numerous drug dealers have been identified and arrested throughout the city. However, the major activity during this reporting period occurred in the Northeast sector of the city.

The FBI-led Safe Streets Task Force, focusing on street gang and drug violence, targeted the Langston Terrace and Carver Terrace public housing developments, arrested 25 individuals, and seized drugs, 5 weapons, and over \$4,000 in cash. The Task Force is comprised of the FBI, HUD OIG, and the Metropolitan Police Department (MPD).

Operation Eagle, comprised of the U.S. Attorney's Office, MPD, and HUD OIG, is working along with the new Community Prosecution Pilot Program (CPPP). The CPPP, under the auspices of the U.S. Attorney's Office, is focusing solely on crimes, including minor nuisance crimes, occurring in the MPD's 5th Precinct. Since Operation Eagle began in June of this year, 24 arrests have been made, primarily at the Montana Terrace and Edgewood Terrace public housing developments. HUD OIG is the first federal agency to initiate a joint operation with the MPD under the new program.

As part of the HUD/DOJ "6 City" effort, the U.S. Attorney for the District of Columbia led a committee of federal and District officials in developing a plan to further reenforce CPPP in the MPD's 5th Precinct.

The DC Housing Authority (DCHA) introduced 25 police officers assigned to the MPD Housing Division to their respective property managers at a recent orientation. The assignments include all five Operation Safe Home locations in the City. An additional 35 officers will be assigned to expand the force to the remaining 42 public housing sites as they graduate from the Police Academy. All the officers are volunteers for the assignments. In addition, DCHA received a \$1 million DOJ grant to help establish an 80 member police force that will be trained and work in partnership with the MPD.

## ***Florida***

During this reporting period, the MIAMI Safe Home Task Force led Operation Safe Home activities in Dade County. For example: a 4 week undercover investigation resulted in the arrest of 30 individuals for possession of crack cocaine and marijuana in the Scott Homes public housing complex. Two individuals were also arrested after members of the task force, in unmarked vehicles, watched them rob a store across from the complex. At the Cloverleaf Apartments, a 100 unit Section 8 development, 14 individuals were arrested following an undercover drug buy. Drugs, weapons, and a small amount of cash were seized during these arrests. This task force includes DEA, ATF, HUD OIG, and the Dade County Police Department.



## ***Georgia***

DEA, HUD OIG, the ATLANTA Police Department, Fulton County Sheriff's Office, and the High Intensity Drug Trafficking Area (HIDTA) Task Force initiated an operation to execute 100 arrest warrants. They arrested over 20 individuals based on an undercover narcotic investigation, called Operation Crack Down, that took place in the Thomasville Heights, Capitol Homes and Mechanicsville public housing developments and the Pittsburgh Civic League Apartments, a HUD Section 8 subsidized development. The operation will continue until all 100 individuals are arrested. In April, Federal, state and local law enforcement personnel involved in operations at the Thomasville Heights development sponsored an Easter egg hunt for the children in that development. Thirty children participated and were given anti-drug coloring books.

Sentences for defendants in two previous operations in ATLANTA totaled more than 20 years in prison, 23 years in community service, and 14 years probation. In October 1995, six individuals were arrested after exchanging food stamps for cash and then purchasing drugs and weapons. This summer, three of them were sentenced to prison, probation and community service. In the second instance, two members of the *Miami Boys* street gang were sentenced and a third pled guilty. This street gang controlled the illegal drug trade in several public housing developments, maintaining their control through violent acts, such as drive by shootings that resulted in several deaths and injuries.

## ***Illinois***

In CHICAGO, HUD OIG is involved in five operations. One task force focused on the illegal importation of narcotics by Nigerian immigrants who are using public housing units as distribution outlets. Eighteen were arrested and eviction of the public housing residents followed.

There are three task forces working together on the problems of gang influence in the Chicago Housing Authority properties. Over the past two years, members of the known gangs have been arrested and some sentenced to prison terms. A number of witnesses were relocated who later testified in the prosecutions and information was provided that led to the eviction of criminals from public housing. In addition, areas in the public housing process have been identified that would help to improve the living conditions in the developments, including changes to the rental contracts, improved screening of applicants, and improvements to the security at the developments. These are being addressed with the HUD program staff.

## ***Indiana***

The Northwest Indiana Violent Crime Task Force comprised of ATF, DEA, HUD OIG, the police departments from GARY, PORTAGE and HAMMOND, and the Lake County Sheriff's Department, held its first meeting with the Gary Housing Authority and resident council board to outline its goals and plans to work with the residents. The first federal search warrants were executed at two locations and a consent search was conducted that resulted in the arrest of three individuals and the seizure of 25 guns, \$13,000 in cash and a pound of marijuana.

## ***Louisiana***

Ongoing surveillance by the NEW ORLEANS Multiple Agency Safe Home (MASH) Task Force resulted in 234 arrests in public housing developments and 150 arrests in Section 8 areas of the city. Fifty-nine weapons, over \$35,400 in cash, and approximately 3,300 grams of cocaine, crack cocaine, marijuana and heroin were seized during the weekly operations. To encourage residents to anonymously report criminal activities, a toll free telephone line directly to MASH is operational and has proven to be very successful. MASH is led by the ATF and includes personnel from DEA, USSS, USMS, HUD OIG, New Orleans Police Department and Jefferson Parish Sheriff's Office.



## ***Maryland***

The BALTIMORE HIDTA Task Force was initiated in 1994 targeting the Cherry Hill, Westport and Murphy Homes public housing developments. Activity during this reporting period included several undercover drug buys, three individuals arrested, and a former city employee who was an official in the Klu Klux Klan sentenced to 40 months in prison and 2 years probation for transferring unregistered firearms and dealing without a license. The former employee was supplying weapons to gang members operating in public and assisted housing developments.

## ***Massachusetts***

The Organized Crime Drug Enforcement Task Force (OCDETF) for the cities of FITCHBURG, WORCESTER and LEOMINSTER continued its activities during this reporting period. OCDETF includes DEA, HUD OIG, ATF, and State and local police and is supported by the District Attorney and the U.S. Attorney's Office. It is being jointly funded by the three local housing authorities involved. During this reporting period, three crack cocaine dealers, who sold to informants and an undercover agent, were arrested following the execution of a search warrant in a Section 8 area in Fitchburg and a federal arrest warrant in Leominster.

## ***Michigan***

The Crack Ridge Task Force in TAYLOR, comprised of the ATF, HUD OIG, and the Taylor Police Department, completed a 90-day phase of an investigation in 3 assisted housing complexes. Twenty three individuals were arrested; drugs, four weapons, \$1,630 and four vehicles were confiscated.

## ***Missouri***

Several operations occurred in the KANSAS CITY metropolitan area during this reporting period. In an effort to stabilize a section of the City, HUD OIG worked with City officials, the Police Department, HUD Program staff, and the owner of a HUD assisted development to establish a police substation in one of the units of the development. Special Agents also assisted the DEA Task Force in the arrest of 14 individuals for the distribution of 44 pounds of cocaine within the metropolitan area, including public and assisted housing.

As participants on the FBI Metropolitan Violent Crime/Gang Task Force, HUD OIG Special Agents assisted in an undercover operation that led to the identification of gang members in a four-state area. In this 3-week operation, Special Agents videotaped drug buys after obtaining a Title III court order for the electronic surveillance of dealers who were distributing narcotics in public housing and assisted in the arrest of 17 dealers.

## ***New Jersey***

The NEW BRUNSWICK Police Department, along with HUD OIG and the Middlesex County Prosecutors Office were responsible for the arrest of 40 individuals between May and September. The majority of the arrests were made in and around the Memorial Parkway, Memorial Homes and Robeson Village public housing complexes. Through surveillance, members of the task force observed actual drug buys and followed one individual transporting cocaine across the State line. Search warrants resulted in drugs, one weapon, a Mercedes Benz and over \$40,000 in cash being confiscated.

## ***New York***

Operation Safe Home has been active in all five boroughs in NEW YORK CITY and in BUFFALO.



In NEW YORK CITY, Operation Cyclone was a three phase operation organized by HUD OIG targeting fugitives in the 60th Precinct, which covers the Coney Island section of the city. This area includes the Coney Island, Gravesend, Haber, O'Dwyer Gardens, Warbase, Marlboro, Carey Gardens public housing developments and the Luna Park Section 8 housing development. In the first phase of the operation, officers and detectives of the New York Police Department's (NYPD) Warrant Squad, Housing Police Bureau, Transit Police Bureau and 60th Precinct, along with investigators from the State Police Warrant Squad, USMS, FBI and HUD OIG executed 62 arrest warrants and arrested 16 individuals. Phase two involved a traffic checkpoint, manned by the NYPD 60th Precinct, the City Sheriff's Department, USSS, USMS, HUD OIG, and the FBI, looking for fugitives that were not apprehended during the first phase, stolen vehicles, drunk drivers, scofflaws, and cloned cellular telephones were seized. Five stolen vehicles were identified and impounded and an illegal alien was arrested. The final phase consisted of several walking and bike patrols of the public housing developments by the Housing Police, undercover operations conducted by the Housing Police anti-crime unit and the Transit Police on the subway stations of Coney Island.

More than 550 federal, state and local law enforcement officers participated in Operation Vice Grip. This operation targeted known fencing locations, automobile chop shops, drug dens. and gambling houses in an around the Diego Beekman assisted housing developments and nine public housing development in the BRONX. Efforts included buy and bust operations, sweeps on arrest warrants, truancy and parole violators; traffic safety checkpoints and clean hall patrols. During one operation in May, 261 individuals were arrested, 124 truants were returned to schools, 26 search warrants were executed, 320 summons were issued, and 6 weapons, over 1,000 vials of crack cocaine, over \$8,000 in cash, and 14 vehicles were seized. Participating in this effort were the USSS; ATF; HUD OIG; numerous units of the NYPD including the 40th and 41st Precincts, Housing Police, Transit Police, and Vice Squad; the State Police, and the New York City Sheriff's Department.

The STATEN ISLAND Anti-Gang Strike Team was active at three housing complexes during this reporting period. At two separate Section 8 complexes, two drug locations were identified as the primary source of operation of a drug gang. Packaged hashish, crack cocaine and marijuana were confiscated and two known felons were identified. At another subsidized building near a public housing development, a controlled delivery of a package of uncut heroin was delivered by an undercover USPS Inspector as part of an operation against a particular gang. The heroin was traced to its origin in Thailand. Three foreign nationals were arrested.

Since the inception of Operation CAPIT (Crimes Against Persons Investigative Team) in FAR ROCKAWAY, over 80 arrests have been made. Many of the suspects belong to the *Young Guns*, the *Sandford Gang*, the *Regulators*, the *Almighty Latin King Nation*, the *Netas*, and several other gangs operating in the public housing development in the QUEENS BOROUGH. HUD OIG helped initiate this task force, which is comprised of HUD OIG; the New York Police Department's Transit Police, Housing Police, and Highway Patrol; the State Division of Parole Warrant Squad; New York City's Department of Probation and Sheriff's Enforcement Division; and the U.S. Army National Guard Narcotics Interdiction Unit. In addition, assistance has been provided by the USSS, INS, USCS, and the State Police.

The BUFFALO Violent Crime/Career Criminal Task Force, including HUD OIG and led by the U.S. Attorney's Office, continued its investigation into the criminal enterprise that supplies drugs to residents of the City. Following an intensive investigation into the 10th Street Boys gang, HUD OIG Special Agents were involved when 10 arrest warrants were executed throughout the west side of the city. The gang is responsible for the sale of drugs and drug related violence in and around public housing in that section of Buffalo.

As a result of a partnership formed to reach the youth living in public housing, 15 youths, who completed assigned projects in their respective residential communities, were taken to a pre-season Buffalo Bills game. Representatives of the USMS, HUD OIG, the Buffalo Metropolitan Housing Authority, and the Buffalo Office of Public Housing served as chaperons.



## Ohio

There are several ongoing operations involving narcotics in Ohio. The COCHOCTON COUNTY Sheriff's Department, in conjunction with the Central Ohio Drug Enforcement Task Force (CODETF) arrested 15 individuals including two juveniles on charges of aggravated trafficking of drugs and possession. These low- to mid-level drug dealers were dealing in and around both public and assisted housing complexes. In another CODETF operation, HUD OIG Special Agents assisted in the eradication of hundreds of marijuana plants in three counties, Licking, Athens and Meigs. The total street value of these plants is estimated at over \$1 million.

Twenty members of the *Outlaws, Brothers,* and *Road Saints* motorcycle gangs were arrested on federal and state charges by the COLUMBUS Police SWAT and Narcotics Units, ATF, and HUD OIG, at four motorcycle gang clubhouse locations. These arrests culminate a 3-year undercover investigation in which agents, residing in properties supplied by HUD OIG, purchased cocaine, methamphetamine, and weapons. The drugs and weapons came from a number of public and assisted housing complexes in the Columbus area.

HUD OIG Agents participated with the COLUMBUS Police Department's community Response Unit, the State's Attorney General's office and the Security Director for the Columbus Metro Housing Authority in the *National Night Out Rally* at the Sawyer Towers Apartments. The Agents spoke to residents and handed out Operation Safe Home literature.

## Oklahoma

In an effort to identify drug dealers operating in public housing areas in TULSA and BARTLESVILLE, officers from 17 federal, state and local agencies, including HUD OIG, participated in a fugitive sweep that resulted in the arrest of 65 individuals. Charges included assault and battery on a police officer, violation of probation, robbery and drug related offenses with about 85 percent of those arrested facing felony charges. After the sweep, letters were sent to the residents of the various public housing developments and scattered assisted housing sites advising them that this would be an ongoing effort and encouraging them to contact a local 800 number if they were aware of illegal activities in their area. This operation has been named "Clean Slate."

Culminating a 3-month effort to identify and arrest persons involved in drugs and violent crime in public and assisted housing, a 4-day round-up by the TULSA Task Force resulted in 127 arrests with 18 weapons, drugs, cash, and 17 vehicles being seized. The investigation identified 196 charges, both federal and state drug and weapons violations, involving 163 individuals. This HUD OIG led task force includes ATF, U.S. Attorney's Office, the Tulsa Police Department, and the Tulsa County District Attorney's Office. Assisting in this sweep were the FBI, INS, the Oklahoma State Department of Corrections, the Tulsa County Sheriff's Office, the Sand Springs, Claremore and Owasso Police Departments, and the Tulsa Fire Marshal's Office.

The OKLAHOMA CITY Task Force was responsible for the arrest of 5 individuals in scattered Section 8 areas on drug and weapons charges. During the arrests, over 9,000 grams of marijuana and \$20,000 in cash were confiscated. The task force is ongoing and may expand into neighboring cities. HUD OIG is the central exchange point for information on gang activities among the neighboring cities in what is called the "I-35 connection" and is also working with the Oklahoma City Housing Authority on an aggressive eviction policy for those residents involved in criminal activity.

## Pennsylvania

Controlled drug buys were made by undercover agents and confidential informants, and two Colombian individuals were arrested by the PHILADELPHIA Violent Traffickers Task Force during this reporting period. HUD OIG



is a member of this ongoing operation concentrating primarily on the area around the Martin Luther King Plaza, which is a 4 building high-rise apartment public housing complex with approximately 5,000 residents in South Philadelphia. The task force, which also includes DEA, FBI, and ATF, is focusing on domestic crime, potential fugitives living in the complex, and illegal drugs and weapons.

The arrests of 41 individuals for the sale and possession of narcotics at 4 public housing developments in CHESTER are the result of a year long investigation by HUD OIG and DEA. This investigation required numerous undercover drug buys and surveillance of drug activities in and around the Chester Housing Authority. An off-site HUD-owned property and a vacant Housing Authority unit were instrumental in surveillance and other investigative operations that ultimately identified many of the defendants, 10 of whom are current residents of public housing. The HUD OIG and Housing Authority officials are pursuing evictions against these residents.

As a post enforcement initiative, HUD OIG worked with the BUCKS COUNTY Housing Authority and resident council to sponsor a martial arts demonstration with an anti-drug and anti-crime theme at the Venice Ashby development. Many of the demonstration participants were children with public housing backgrounds.

### ***Rhode Island***

Operation Trifecta, a tri-city initiative involving the cities of WOONSOCKET, PROVIDENCE and PAWTUCKET, continued into its second year of operation. HUD OIG, and the Rhode Island Attorney General's Strike Force are the lead on this task force with help from the police departments from Providence and Woonsocket. During this reporting period, activity in and around public and assisted housing included 20 search warrants executed, 29 individuals arrested, large quantities of heroin, cocaine and marijuana, and over \$8,000 in cash confiscated.

In PROVIDENCE, a member of *The Latin Kings* street gang, who held the title of Enforcer/Black Bead, pled guilty for his involvement in the murder of the president of the *Netas*, a rival street gang. This plea resulted from a September 1995 federal indictment of 11 members of *The Latin Kings* who were responsible for drug trafficking in public housing complexes and were also charged with murder, arson, extortion, intimidation of a federal witness and firearms violations. The investigation was conducted by ATF, FBI, HUD OIG, INS, USSS, Providence Police Department, the State police, Departments of corrections and the National Guard.

The NEWPORT Task Force, comprised of HUD OIG, U.S. Naval Criminal Investigative Services, and the Newport Police Department, executed two search warrants and arrested 16 individuals in public housing developments on charges involving possession of narcotics and resisting arrest. Crack cocaine and over \$3,500 were confiscated.

### ***Tennessee***

As a result of an ongoing investigation in MEMPHIS, 23 additional arrests were made during this reporting period; 7 individuals previously arrested pled guilty; 2 former Housing Authority employees were convicted at a federal trial; and the first 2 of the 20 individuals indicted last January were sentenced to 60 months in prison and 4 years probation each. All were involved in selling and/or buying drugs in public and assisted housing developments. The FBI, ATF, HUD OIG, U.S. Attorney's Office, Shelby County Sheriff's Department and the Memphis Police Department are all actively involved in this effort.

In PARIS, twenty individuals were arrested following undercover drug operations at the Vernan Place public housing developments and the Harrison Meadows and Crestview Manor assisted housing complexes. The investigation by HUD OIG, FBI, US Attorney's Office, State Highway Patrol, the Paris Police Department, and the



Henry County Sheriff's Office led to a bar that served as a focal point for the distribution of crack cocaine in the developments.

During the 10-month investigation by the MILLINGTON Safe Home Task Force, 16 individuals were arrested for the distribution of crack in the E.A. Harold public housing development. The investigation determined that the majority of drugs in the area came from dealers within the development. The Naval Criminal Investigative Service was involved in this investigation with the HUD OIG and the Millington Police Department because the public housing development borders the Millington Naval Support Facility.

ATF, USSS, USMS, HUD OIG, and the NASHVILLE Police Department executed search warrants at two private residences and three public housing units that were being used to sell heroin. Arrest warrants were obtained for the nine individuals responsible for the sales. These individuals were responsible for the majority of the heroin sold in the Nashville area. Over 100 grams of heroin were seized at the residence of the leader of the group. In addition, 14 automobiles, 1 motorcycle and over \$26,000 were also confiscated.

## ***Texas***

A sweep of seven public housing developments culminated an effort that began in DALLAS last May. During the operation, 14 search warrants were executed and 73 arrests were made at the Edgar Ward Place, Elmer Scott, George Loving Place, Roseland Homes, Simpson Place, Town Park and Pebbles Apartments. The HUD OIG Assistant Special Agent in Charge for the Southwest District gave the Housing Authority a letter to be distributed to residents explaining the intent of Operation Safe Home and provided a local hotline number to call to report criminal activity. The Housing Authority is actively pursuing eviction of 30 residents. The task force includes ATF, INS, HUD OIG, and the Divisions of several Dallas Police Department (Narcotics, Tactical, Traffic, Air, and K-9).

Eighty-eight arrests were made by the EL PASO Safe Home Task Force during this reporting period. In one operation 74 arrest warrants were served at the Eisenhower, Ruben Salazar, Alvarez, King, Kennedy, Marmolejo, Roosevelt, and Sherman public housing developments. Three of those arrested were suppliers of drugs who were using a HUD-owned house as a "stash house." Of the seven charged with federal drug and weapons violations, one pled guilty and another was found guilty following a 3-day jury trial. In another sting operation, over 307 pounds of marijuana were confiscated from a HUD-owned home. The El Paso Sheriff's Office, DEA, HUD OIG, and the U.S. Border Patrol are working together on this task force.

A concentrated 90-day effort by the FT. WORTH Safe Home Task Force culminated with the arrest of 100 persons and 15 search warrants being executed. Public and assisted housing in all areas of the city, including the Ripley Arnold, Butler Place, and Caville public housing developments, were targeted in this initiative by HUD OIG and Ft. Worth Police Department. Drugs, firearms, cash, over \$20,000 in stolen property and a stolen vehicle were confiscated. The Ft. Worth PHA is following the tenant arrests with an aggressive eviction policy.

As a result of Operation Safe Home activities in FT. WORTH, a proactive effort is underway to rid public housing developments of improperly parked vehicles. HUD Drug Elimination Grant money is being used to fund this new program. Residents must obtain a sticker for their vehicles or face the expense of having them towed. This is just one part of a larger strategy to reduce drug trafficking and gang activity in the public housing developments. Much of the crime is attributed to non-residents. A title, state registration and certificate or bill of sale must be presented in order to obtain a no-cost sticker and the vehicles must have current license tags. Although the residents have mixed feelings about this new effort, towing has been strictly enforced and unauthorized traffic has been reduced in the developments.





## ***Virginia***

Post enforcement efforts continue following a successful 6-month drug trafficking investigation at the Laden House, a 100 percent Section 8 development in LEESBURG. Based on a cost reimbursement agreement signed in August with the state and local police, 15 officers and agents from federal, state and local law enforcement conducted an evening of intensified vehicular and foot patrols in and around the development in September. Federal and local law enforcement officials also spoke to residents at a meeting at the development.

## ***Washington***

The TACOMA Violent Crime and Major Offender Task Force is focusing on the Hilltop area of the city. At the Winthrop Apartments, HUD OIG attended resident meetings and got HUD program staff to inspect the complex. As an additional result, there have been 5 arrests and four evictions for drug activity at this complex.

A resident of assisted housing and her husband were being investigated by the TACOMA Police Department and HUD OIG for operating a suspected methamphetamine laboratory from their home. When approached, they refused to allow entry without a warrant. By the time a warrant was obtained, an inspection of the house disclosed no evidence of a laboratory. They were arrested for obstruction of justice and outstanding warrants. As a result of this arrest, the resident's rental assistance was terminated by the Tacoma Housing Authority.

As part of the Puget Sound Violent Crime Task Force, HUD OIG assisted in the arrest of a bank robbery suspect at a SEATTLE public housing complex where he and his girlfriend lived. Seven days after the arrest, the individual was indicted on three counts of robbery.

## **SNAP**

The Safe Neighborhood Action Plan (SNAP) was initiated by HUD in an effort to address specific crime issues in assisted housing. It incorporates community entities, assisted project owners and managers, and law enforcement personnel in specific cities. During this reporting period, HUD OIG was involved in two areas:

### ***Colorado***

DENVER was chosen as one of the demonstration sites for SNAP. In several buy/bust operations, 58 individuals were arrested on drug charges. One of the arrested was a fugitive from Los Angeles; another was on parole and now faces 40 years in the penitentiary. Because of the increased law enforcement activity under the auspices of Operation Safe Home, the dealers no longer can find a "home" to sell their drugs. As part of post-enforcement, HUD OIG Special Agents are participating in planning meetings and are working with the Volunteers in Service to America workers who are assigned to SNAP.

### ***Massachusetts***

HUD OIG conducted a review of the BOSTON SNAP initiative to assess its impact on the residents, developments and surrounding neighborhood. The review disclosed that this is a successful model in bringing diverse groups together for the purpose of implementing crime reduction strategies at multifamily developments. The strategy has reduced the amount of calls made by residents to the Police Department and contributed in making the selected developments and the surrounding neighborhood safer. Implemented in April 1994, the initiative is fully functional at three HUD-owned multifamily developments that are managed by the Massachusetts Housing Finance Authority. The primary goal of reducing crime at the three developments is not an easy or clear-cut mission. Without the commitment exhibited by the City of Boston, the MHFA, resident groups and local HUD officials, the SNAP initiative



would not be as effective. However, success comes with a high start-up cost. This is attributable to the need to establish or increase security in the area. In the Boston initiative, this was partially offset by an average 18 percent decrease in the developments repair expenses due to vandalism. Because of the effectiveness, HUD should consider using components of this initiative as a model for other multifamily developments. (Report No. 96-BO-111-0801)

## Witness Relocation

HUD OIG is working with HUD program and local housing authority personnel to relocate individuals and families whose lives are in jeopardy because they are providing information on criminal activity in their communities and fear reprisal. During this 6-month reporting period alone, 89 individuals/families were relocated, bringing the total to date to 317 assisted. Examples of relocations that Special Agents facilitated include the following:

- ➔ Two key witnesses in an arson-for-profit investigation were relocated after being intimidated by the owner of the HUD assisted property because they were essential to his conviction. The owner and principal of 26 realty and management companies engaged in an insurance fraud scheme by torching one of his properties in which a fire fighter died. Since the relocation of the witnesses, the owner and his office manager were convicted and both were referred to HUD for suspension and debarment.
- ➔ Relocation of a cooperating witness and the family, who were public housing residents, was necessary following attempts to keep a witness from revealing information about illegal activities in the public housing development. The witness was brutally shot twice and is now a quadriplegic. The witness's mother was located at her place of employment and was shot in the face while holding a small child.
- ➔ HUD OIG concurred with the relocation request from a Housing Authority Director to relocate a public housing resident who had been beaten and raped by her estranged husband.
- ➔ Nine witnesses to homicides that occurred in public or assisted housing developments were relocated. Three of the homicides were execution-style slayings. In one instance, two families were placed under police protection prior to relocation because of threats against the witness's school-age children.
- ➔ At the request of the local District Attorney's office, a cooperating witness's family was relocated to Section 8 housing. The witness, who was arrested on drug charges, agreed to testify against higher echelon suspects who are believed to be distributing crack cocaine around public housing developments. Police had learned that the witness's wife and child, who were not involved in criminal activity, may have been targets of retaliation by the witness's former associates.
- ➔ An elderly grandmother, raising four grandchildren in a HUD-subsidized apartment, was relocated after being threatened because a grandson testified against individuals involved in drug sales.
- ➔ A family was relocated to another public housing development at the request of the U.S. Attorney's Office after the woman was threatened because of her boyfriend's cooperation in a case involving drugs.
- ➔ A robbery victim who lived in public housing accepted relocation to another development after receiving death threats and gunfire at her residence. The robbery victim was able to identify another public housing resident



## Combatting Fraud in Public and Indian Housing Administration

responsible for the robbery. Fraud and abuse in the administration of HUD's Public Housing Programs erode public support and detract from the scarce resources available to provide better living conditions for residents. While most of the 3,400 PHAs across the country are well managed, HUD OIG audits and investigations continue to disclose embezzlement, bribery, kickbacks, bidding irregularities, false claims, conflicts of interest and other instances of program abuse.

In addition to formal audits and investigations, probes are being used to identify fraud and abuse. Probes are designed to quickly survey PHAs for indicators of crimes such as those mentioned above.

Since the announcement of Operation Safe Home, the number of indictments and convictions have increased. The following table shows statistically the activity since the inception of Operation Safe Home.



Activity	Current Reporting Period	Cumulative to Date
Indictments	7	102
Plea Agreements/ Convictions	9	82
Sentences Imposed	19 months	622
Fines/Restitutions	\$49,754	\$1,009,724

The HUD OIG also prepared a brochure which provides guidance for housing authorities to use to develop a fraud policy. It identifies ways to establish controls and prevent the types of abuses identified below. The brochure was done as a proactive effort working with the housing authority community to safeguard assets.

Examples of the results obtained during this reporting period include the following:

### ***MultiState***

The HUD OIG ROCKY MOUNTAINS DISTRICT conducted cash reviews at 12 Indian Housing Authorities to determine if the Housing Authorities had adequate controls over cash assets. Of the 12 reviews performed, a combined total of over \$175,000 in cash shortages were discovered at 6 of the Housing Authorities, while 5 others were highly susceptible to cash shortages or diversions because of inadequate controls. Only one Housing Authority had implemented adequate controls over cash. Specific control weaknesses included untimely or incomplete deposits of cash receipts; inadequate separation of duties; receipt discrepancies; improper controls over petty cash funds; and inadequate safeguarding of cash assets. These cash shortages adversely impacted operations. Funds were used improperly for non-authorized personal expenses, making less resources available for maintenance and other vital expenditures. Also, tenant accounts were misstated, causing tenants to lose confidence in the Housing Authority's cash management and accounting system, and giving tenants an alleged legitimate excuse not to make monthly rent payments. Finally, three employees performing the cash handling and accounting functions were convicted of embezzlement. The audit recommended that the HUD Office of Native American Programs focus more on cash management controls when providing technical assistance and guidance to Indian Housing Authorities. (Report No. 96-DE-107-0001)

### ***Florida***

The HUD Office of Public Housing in Jacksonville affirmed its 1-year limited denial of participation for the executive director of the HIALEAH Housing Authority. The denial resulted from deficiencies disclosed in an October 1995 probe performed by HUD OIG that included over \$60,000 in ineligible expenses, improper payment and procurement practices, conflicts of interest, improper withdrawal of \$200,000 from the Section 8 reserve account, and noncompliance with Section 8 tenant requirements.

The results of a probe of the DANIA PHA revealed that four relatives and extended family members of the acting executive director abused the Section 8 program by misrepresenting their entitlement to obtain assistance ahead of



other applicants. Through March 1996, HUD paid \$28,424 on their behalf. The HUD OIG has recommended a limited denial of participation for the acting executive director and the four tenants. The review also disclosed that the PHA procured \$130,000 worth of management services without following proper procurement procedures.

## ***Georgia***

Based on the results of the HUD OIG review of the STATESBORO Housing Authority, the Office of Public and Indian Housing issued a limited denial of participation to the Executive Director. The reviewers found that the Executive Director had seriously compromised the PHA's internal controls. Personal expenses were charged to the PHA, maintenance employees performed work at the executive director's home during working hours, cash shortages in rent collections were concealed, and proper procurement and disposition procedures were not followed. The executive director continued these practices after being cautioned by the Board of Directors and was suspended by the Board pending his appeal. HUD sent someone to oversee the PHA until a replacement can be found.

Based on a recommendation made by the HUD OIG during a review of the ATLANTA Housing Authority, the Office of Public and Indian Housing issued a letter of intent to debar the authority's former executive director. Evidence was found that the former director violated HUD and PHA procurement standards in awarding and administering a \$220,000 professional services contract.

## ***Illinois***

Five people were indicted on nine counts of procurement fraud following a joint HUD/FBI investigation at the CHICAGO Housing Authority. Two of those indicted were employees of the Authority, a procurement specialist and the director of purchasing and contract procurement. The Authority officials used their office for personal gain by giving preferential treatment to the other defendants in awarding contracts in excess of \$1.8 million.

## ***Kentucky***

Following a HUD OIG probe, the HUD Kentucky State Office issued a limited denial of participation against the former executive director of the BOWLING GREEN Housing Authority. The review confirmed and expanded upon an independent accountant's report of bogus travel costs. The former director, who had left another PHA under similar circumstances, resigned.

## ***Louisiana***

In early July HUD OIG issued a status report to the Secretary on the Housing Authority of NEW ORLEANS' (HANO) procurement practices. Concerns were expressed about the ability of two sole source contracts for resident initiative programs to improve long-standing operational problems at HANO. HUD OIG joined other officials in testifying before the Congress on these issues as well as the poor conditions of the housing units under HANO's jurisdiction. In addition to these issues, HUD OIG also recommended the eviction and debarment of a resident board member for failing to report income, and the debarment of another Authority official who had resigned from another housing authority after an investigation found that the individual misused that authority's funds and property.

## ***Montana***

An employee of the FORT BELKNAP Credit Department was indicted for embezzling over \$5,000 from the Fort Belknap Housing Authority. The employee, who had a position of trust and fiduciary responsibility to administer federal funds, wrote checks to herself from HUD funded accounts. This investigation was conducted by HUD OIG, the Department of Interior (DOI) OIG, and the Bureau of Indian Affairs.



## ***New York***

The chairperson of the LONG BEACH Housing Authority resigned from office after being suspended for 30 days. The suspension followed a HUD Fraud Task Force investigation that found the chairperson was negligent in his duties and allowed a staff member to run the Section 8 program for several years without any oversight or proper management. The investigation also determined that four NASSAU COUNTY employees defrauded the Section 8 program. This is an ongoing investigation by HUD OIG audit and investigation personnel at this particular PHA.

An administrative assistant with the GLEN COVE Housing Authority was arrested by members of the HUD Fraud Task Force after it was discovered she was stealing rent payment checks from residents of the PHA and depositing them into her personal bank account. The investigation's findings were referred to the Nassau County District Attorney's office for prosecution. She voluntarily surrendered and was arrested and charged.

A former contracts administrative officer of the NEW YORK CITY Housing Authority was sentenced to 3 years probation, 4 months home detention, and fined a \$50 special assessment fee for defrauding the HUD Section 8 program of approximately \$15,000. This individual was one of 102 government employees arrested to date for rental/welfare fraud by the HUD Fraud Task Force. The Housing Authority also terminated her employment.

## ***North Dakota***

As a result of a HUD OIG audit, followed by an investigation by HUD OIG and the Department of Interior OIG, a Turtle Mountain Housing Authority employee in BELCOURT confessed to Federal agents that she had embezzled more than \$6,000. After entering a negotiated guilty plea, the employee was sentenced to 3 years probation and ordered to pay \$5,000 in restitution.

## ***South Dakota***

A former employee of the SIOUX FALLS Housing and Redevelopment Commission pled guilty to stealing more than \$18,000 between 1990 and 1995 when he was employed as the Comptroller for the Commission. The primary weakness at the Commission was a failure to segregate functions. The Comptroller's duties included collecting rents, issuing receipts, maintaining books of account, and depositing monies. The outcome resulted from an HUD OIG probe followed by a HUD OIG investigation.

## ***Tennessee***

Based on a HUD OIG investigation, a MEMPHIS Housing Authority employee and a resident were indicted on 11 counts of making false statements to defraud HUD. The resident received over \$11,000 in Section 8 benefits to which she was not entitled. The employee aided and abetted the resident in creating a fictitious landlord, receiving checks directly, and forging the landlord's name in order to cash the checks.

## ***Virginia***

A joint investigation by HUD OIG and FBI disclosed that the executive director of the WYTHEVILLE Redevelopment and Housing Authority received gratuities, including free renovations to her residence, in exchange for the awarding of public housing modernization contracts to a particular contractor. Following a plea agreement, where she admitted to knowingly misusing the contractor services and to lying to a Grand Jury, she was sentenced to 6-months home detention and 3 years probation, fined \$10,000, and ordered to make restitution to HUD.



## Combating Equity Skimming in FHA Insured Multifamily Housing

Equity skimming plays a significant part in the realization of losses to the FHA multifamily insurance fund. FHA has \$47 billion in insured multifamily housing mortgages; approximately \$8.3 billion is estimated to be at risk of default in the next year; and HUD holds another \$6 billion in assigned mortgages. In FY 1995, HUD paid \$365 million in multifamily insurance claims.

Equity skimming is the willful use of any part of the rents, assets, proceeds, income or other funds derived from the property covered by the mortgage during a period when the mortgage note is in default or the project is in a nonsurplus cash position, as defined by the Regulatory Agreement between HUD and the owner or management agent, for any purpose other than to meet actual or necessary expenses.

Apart from the fairly obvious financial losses that HUD incurs when owners collect rents but do not pay the mortgage, equity skimming generally has other insidious implications. Most notably, living conditions deteriorate for the residents when funds intended to maintain, replace or repair living units are diverted for the personal use of owners.

Under Operation Safe Home, HUD OIG has retooled the strategies and techniques for aggressive pursuit of equity skimming violations. The current campaign is designed to exploit civil enforcement opportunities and streamline referrals of civil cases to U.S. Attorneys. Referrals of equity skimming cases may now be made directly by HUD OIG auditors without involving either HUD's Office of General Counsel or HUD OIG Office of Investigation.

Successful prosecutions and settlements will demonstrate that HUD has the will and ability to enforce compliance with its requirements. Working together, the HUD OIG and HUD Office of Housing are developing more solid equity skimming cases.

Our activity under Operation Safe Home is reflected in the following table:

Activity	Current Reporting Period	Cumulative	Estimated Equity Skimming
Cases Identified	18	194	\$145,227,515
Cases Settled Prior to Litigation	9	52	\$31,147,978
Court Judgments	1	9	\$11,019,580
Criminal Convictions	--	10	\$2,154,725



The Affirmative Civil Enforcement Working Group, as part of the U.S. Attorney General's Advisory Committee on Financial Litigation, and Assistant U.S. Attorneys (AUSAs) throughout the nation have played a significant role in the Operation Safe Home effort to crack down on civil fraud in HUD assisted housing programs. AUSAs have enabled HUD to act quickly and efficiently through civil remedies, in protecting the rights of the tenants and the Department. Given past difficulties in addressing HUD program abuse, these accomplishments are critical to deterring future violations and restoring integrity to HUD programs.

During the past 6 months, the Inspector General's award for outstanding efforts for combatting equity skimming has been presented to AUSAs in the Northern Districts of Georgia and California. Recent settlements in 3 cases have been obtained for approximately \$700,000 as a result of the efforts of individuals from these offices.

In an effort to help HUD program staff to more quickly identify equity skimming, HUD OIG Auditors, with assistance from the Assistant U.S. Attorney from Ohio, conducted a training course for Multifamily Housing Asset Management staff in July. More than 350 asset managers were linked, via keypads, at HUD's distance learning sites. The goal was to provide guidance and information to improve asset managers' skills in identifying, preparing, and pursuing multifamily equity skimming cases.

Examples of equity skimming results obtained this period follow:

### ***Arizona***

The former management agent for three complexes on the NAVAJO RESERVATION was notified by HUD that his proposed debarment had become final. A joint HUD audit and investigation effort, with assistance from the U.S. Department of Agriculture OIG, found that the management agent diverted over \$96,000 from all three projects, allowing units to become uninhabitable in an area with very limited available housing. Prior to the debarment, the agent was sentenced to prison and ordered to make restitution.

### ***California***

An audit of a management agent for several properties in OAKLAND disclosed that the agent used over \$355,000 for ineligible and unsupported expenses; violated the regulatory agreements, HUD handbooks, and management certifications by commingling HUD funds for self-insurance with other company bank accounts; and billed excessive amounts to five Projects Service Coordinator Grants. Our recommendations included requiring the agent to reimburse all ineligible expenses, justify all unsupported expenses and comply with HUD requirements governing the use of HUD funding. (Report No. 96-SF-214-1006)

### ***Connecticut***

Based on audits and reviews conducted by HUD OIG, settlement agreements were signed by project owners in three separate cases during this reporting period.

In BRISTOL, following a HUD OIG audit, a joint pursuit by HUD Office of Housing, HUD OIG, and the Assistant U.S. Attorney resulted in the owners of Bristol Court agreeing to repay over \$674,000 for monies skimmed from the HUD insured multifamily project. The amount includes over \$125,000 in interest and \$21,000 in penalties. An initial payment of \$377,785 was received in May. In addition, six of the seven owners were permanently debarred from participating in HUD programs except for one project, Bristol Court, and they have agreed to sell the project as soon as possible.





At the request of the State Office, HUD OIG reviewed the financial reports and other related documents of the Casa Edad De Oro in HARTFORD, an insured Sec. 202 elderly project with 36 units that also received Section 8 assistance. Over \$118,000 of unauthorized loans were identified as equity skimming. In accordance with the executed settlement agreement, the owners are required to repay the project in full. As of September, over \$68,500 has been repaid.

During an audit of the financial statements of the High Ridge Homes in WATERBURY, HUD OIG identified over \$205,000 in equity skimming. In June 1996, a settlement agreement was executed that required immediate repayment plus \$32,000 in interest. Full payment has been made. The repaid funds are to be used for project maintenance and repair expenses. For the remaining term of the Regulatory Agreement, the project is required to submit monthly reports of net income, disbursements, and payables.

In NEW HAVEN, during a review of the West Street Apartments' annual audited financial statements, possible equity skimming violations totaling over \$330,000 by the owner were identified, including the payment of \$220,000 to the owner while the project was in default. The case was referred to the U.S. Attorney's Office where a complaint was filed in the U.S. District Court seeking twice the amount diverted plus interest, a constructive trust on all project assets which the owner received in violation of the Regulatory Agreement and other assets that were acquired with diverted funds, a preliminary injunction placing HUD in possession of the project and its back accounts, and an injunction preventing the owner from disposing of money or assets except for applicable expenses. In September, HUD issued a suspension and proposed debarment of the owner and his management company from any further participation in federal programs.

## ***Florida***

Following a HUD OIG investigation that confirmed equity skimming audit findings, a former owner of two projects in FORT MEYERS was indicted for creating false vendors in order to get money out of the projects while they were in default. Over \$790,000 was diverted from the projects. The projects were mortgaged for over \$19 million and had to be sold for nonperformance for 78 percent of the unpaid mortgage.

## ***Georgia***

Following a HUD OIG review of the Barclay Arms Apartments in MARIETTA, six companies and three individuals were debarred by HUD for 3 years. In a scheme involving the transfer of control of properties between companies in violation of the regulatory agreement with HUD, project funds were used to make improper and unsupported payments and expenditures totaling over \$220,000.

The mortgagor of Limetree Apartments in COLLEGE PARK repaid HUD \$580,000 following coordinated negotiations with the mortgagor and his attorneys by the U.S. Attorney and HUD's program staff. A HUD OIG review of the operation disclosed inappropriately disbursed project funds for loan repayments and other costs. In addition, the mortgagor improperly continued to retain project cash while the mortgage was in default and failed to submit annual audits and monthly accounting reports.

An audit of one project disclosed unauthorized distributions of project funds while the mortgage was in default. In response to a demand letter from the U.S. Attorney, and to avoid the costs of civil litigation, the owners agreed to repay a percent of the ineligible distributions. The final settlement plus accrued interest (\$95,835) was received, which completes the obligations under the settlement agreement.

A survey by HUD OIG indicated another owner/management agent had not fully complied with a Settlement Agreement to reimburse 23 HUD projects. Upon notification by the program staff of non-compliance, the



owner/management agent deposited \$81,051 in the accounts of six projects located in Alabama, Tennessee, and Georgia, thereby completing the terms of the Settlement Agreement. (Report No. 96-AT-211-1820)

### ***Illinois***

In CHICAGO, an audit of an apartment complex concluded that the owners, a limited partnership, and its managing agent did not provide decent, safe and sanitary housing for the tenants. They failed to implement preventive maintenance procedures, conduct timely unit inspections, ensure work orders were written and completed, correct deficiencies identified by HUD, and ensure contract work was completed before making payment. In addition, they disbursed over \$100,000 for ineligible and unsupported costs during the time that the complex was in a non-surplus cash position. As a result, the project was in deplorable condition, expenses were overstated and fewer funds were available for normal operation and maintenance of the complex. Following the HUD OIG audit, the owners completed the refinancing of the mortgage and repaid the \$113,258 that they skimmed from the project.

### ***Indiana***

For the first time in the history of the State of Indiana, a civil lawsuit was filed against a former general partner of a partnership responsible for improper expenditures of funds of an INDIANAPOLIS multifamily housing project. A HUD OIG investigation uncovered payments to the owner while the project's FHA insured loan was in default. The lawsuit seeks over \$326,000 in damages.

### ***Louisiana***

A HUD OIG audit disclosed that the owner/management agent of a multifamily project in PONCHATOULA diverted over \$284,000 in project funds. While the project was in a non-surplus cash position, the owner withdrew over \$100,000 in the form of loan repayments and advances without HUD approval and repaid loans to third parties in the project's name without HUD authorization. The owner also paid himself for other ineligible costs, including a construction fee of \$70 per day totaling over \$49,000. In addition, the audit disclosed the need for the HUD New Orleans Multifamily Housing Division to strengthen its monitoring of owners and agents. They did not always require audited financial statements, question many payments appearing in financial records, or take action to ensure owners corrected deficiencies. The audit recommended that the diverted funds be recovered and the owner be required to immediately cease the improper activities and that administrative sanctions and other appropriate remedies be taken against the owner to protect HUD's interest. (Report No. 96-FW-219-1003)

### ***Michigan***

A HUD OIG audit of the operations at the Amsterdam Gardens in TROY disclosed distributions of \$92,000 to the owners when the project was in poor physical condition from lack of proper routine maintenance. After the owners ignored HUD's directives to make proper repairs, which were estimated to cost approximately \$500,000, the case was submitted to the Assistant U.S. Attorney's office using the procedures developed under Operation Safe Home. A settlement agreement was completed for Amsterdam Gardens under which the owners made all required repairs and paid HUD for the cost of the audit.

The Assistant U.S. Attorney for the Eastern District of Michigan successfully negotiated a consent judgment with the owners of the Western Hills Apartments, located in WESTLAND. A HUD OIG audit identified \$296,000 withdrawn by the project owners while the project was in poor physical condition. The judgment required the owners to place \$300,000 in escrow to be used for the needed repairs and maintenance; complete needed repairs by a specific date; and pay HUD the cost of the audit.



## ***Mississippi***

Selecting the Broadmeadow Apartments in JACKSON for possible affirmative civil enforcement resulted in the voluntary return of the unauthorized distributions by the owners 2 years ago. During this reporting period, at the request of the U.S. Attorney, HUD OIG surveyed the multifamily projects in Mississippi for evidence of equity skimming. The survey, and a subsequent project review, disclosed that the management agent for the Broadmeadow Apartments made unauthorized distributions when this 60 unit Section 8 project had been repeatedly cited for below average or unsatisfactory physical conditions. Despite attempts by HUD program staff to compel the owners to return the money and make the needed repairs, they would not comply. After the U.S. Attorney's interest in the situation was made known to the owners, they agreed to make the repairs and pay the amount owed.

## ***New York***

In response to a referral from HUD program staff, HUD OIG conducted a limited review of the operations at two complexes in YORKTOWN and ROSLYN. The review confirmed that the owner of both projects made loans totaling over \$4 million to an affiliated company using funds that should have been deposited for project use. If the funds are not returned within a specified time frame, this case will be prepared and turned over to the U.S. Attorney's Office for prosecution following the Operation Safe Home guidelines.

## ***Ohio***

Following a joint HUD OIG and U.S. Attorney's Office investigation, a civil action was filed to recover more than \$215,500 that was illegally skimmed from a HUD owned project in CINCINNATI. In 1992 when the owners defaulted on their mortgage, they were prohibited from withdrawing funds from the operating account without HUD approval. Without that approval, money was diverted from the operating fund by the management agent to pay off a commercial loan, thus violating the terms of their regulatory agreement with HUD.

## ***Oklahoma***

An Operation Safe Home review of the construction costs for an apartment complex in TULSA identified several discrepancies that could result in over \$1.2 million being awarded to HUD. The civil complaint filed against the principals at the complex identified over \$361,000 as diverted from construction loan proceeds. The complain seeks double damages plus audit costs. In addition, there were seven advances totaling \$197,400 made to the company that were based on false claims, so HUD is seeking triple damages plus \$10,000 for each false claim.

## ***South Carolina***

As a result of reviews by HUD OIG Auditors, owners of two complexes repaid money used for unauthorized disbursements. In COLUMBIA, the owners of Bentley Court made unauthorized payments over a 2-year period for such items as non-project legal fees and construction costs amounting to over \$305,500. Upon notification by HUD program staff, the owners remitted payment for these costs plus payments made subsequent to the audit. The owners of Greenway Partnership in COLUMBIA misused over \$42,000 of project funds. The HUD OIG review resulted in a settlement with the owners for repayment in full.

## ***Tennessee***

An investigation in NASHVILLE, conducted by HUD OIG and the IRS, found that a former management agent of four HUD insured projects diverted over \$4.7 million while the mortgages were in default. The agent failed to make any mortgage payments on the properties over a 4½-year period while he was the management agent. The



properties, with mortgages totaling over \$19 million, were later foreclosed and sold, resulting in a \$10 million loss to HUD. The management agent and his wife were indicted on three counts of tax evasion after failing to report \$2.3 million of the diverted funds as income that they used to buy personal items. The U.S. Attorney's Office had earlier obtained three civil summary judgments, totaling over \$10 million, against the couple which is double the amount of the funds that the agent diverted.

## ***Texas***

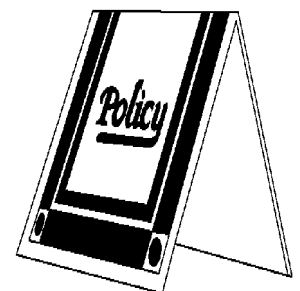
A Federal District Judge in DALLAS approved a judgment of \$5,952,410 plus audit costs and attorney fees against Eastfield Management, Inc. and its principal officer. An audit by HUD OIG identified over \$2.9 million diverted by the management company, involved in the management of 23 projects with HUD insured or held mortgages. The settlement represents double damages as a result of a civil complaint brought by the Government. HUD terminated the management agent agreements and debarred the principal officer prior to this judgment.

Excessive payroll reimbursements totaling over \$148,000 for three properties were found by HUD OIG auditors when they reviewed the operations of a HOUSTON management agent. After being notified of the finding, the agent reimbursed the total amount to the multifamily properties.



# Legislation, Regulations, and Other Directives

Making recommendations on legislation, regulations and policy issues is a critical part of the OIG's responsibility under the Inspector General Act. This responsibility has taken on an added dimension at HUD because of the dynamics of its rapidly changing program and management environment. During this 6-month reporting period, the HUD OIG reviewed 230 legislative, regulatory, and funding notice proposals. This Chapter highlights some of the resultant HUD OIG recommendations.



## Legislation

### Public Housing Authorizing Legislation

During this reporting period, we commented on the House version of public housing reform known as the United States Housing Act of 1996 (H.R. 2406). The bill provides for a Housing Foundation and Accreditation Board which, among other things, would be responsible for establishing performance standards for public housing agencies, performing independent assessments of agency performance, and accrediting such agencies. While H.R. 2406 empowers the Accreditation Board, we believe it unduly diminishes HUD's role in overseeing the Public Housing Program. The bill also contains several areas of potential overlap and ambiguous lines of authority between HUD and the Accreditation Board. We communicated our views to the House Subcommittee on the need for the bill to better balance the authority of HUD and the Board and to more clearly delineate the roles of each.

At the close of this semiannual reporting period, conference agreement had not been reached on this bill.

### Housing Enforcement Act of 1996

In a letter to the Committee on Banking, Housing, and Urban Affairs, we urged the early enactment of H.R. 3741, the Housing Enforcement Act of 1996. The Act provides the Department with enhanced authority to deal aggressively with those who abuse its housing programs. Equity skimming, double damages and civil money penalties are extended to other HUD programs and participants. These important reforms will assist our Operation Safe Home effort in combatting the misuse of operating funds by owners and managers of HUD insured multifamily projects.

We made several other proposals that, if included in H.R. 3741, could further strengthen this legislation. We proposed that: (1) an amendment to the Criminal Code be made to include equity skimming as a money laundering offense that would enable the government to seize assets before a project owner could hide them or make them more difficult to attach; (2) the criminal equity skimming statute be amended to hold any owner, agent, manager, or other person convicted of equity skimming, liable for any loss incurred by the Department in connection with the property as a result of the violation; (3) HUD be exempted from the automatic stay provisions of sections 105 and 362 of the Bankruptcy Code when actions are taken by HUD toward foreclosure on multifamily projects with liens that are insured or held by HUD; and (4) the civil double damages statute be extended to cover the kickback scheme of "fee splitting" by management agents for owners of HUD insured multifamily projects. Our proposals would permit HUD to prosecute defaults through foreclosure and to enhance the Department's ability to take interim measures to protect its interests and the residents of the properties involved.

At the close of this semiannual reporting period, the future of this legislation was uncertain.

### Section 8 Renewals and Portfolio Reengineering

We provided written comments and consulted with Congressional staff members on a Senate legislative proposal to address the Section 8 renewal crisis facing HUD, referred to as Portfolio Reengineering. While the proposal would improve the current Section 8 Program, we had concerns over basic flaws in the design of the Project-Based Section 8 Programs that would still remain. We suggested providing tenants more choice in deciding where to live, more



opportunities to make the transition from assisted housing to self-sufficiency, and maximum employment of market forces in restructuring mortgages and maintaining the rental housing stock.

In a project-based assistance program, the Federal Government takes on most of the financial risk and oversight responsibility while project owners reap the benefits. Project-based rental assistance to tenants has become the primary source for meeting the growing financial needs of projects. The funding for such needs will eventually be satisfied by the Federal Government if project-based subsidies are continued as the means for providing rental assistance. Such an assistance mechanism also requires intense and precise government oversight to work properly. If the rents are set too low, the project deteriorates, tenants suffer, and HUD risks paying an insurance claim. If the rents are set too high, the subsidies are excessive, depriving other needy families from receiving assistance. HUD has a demonstrated track record for not being able to service this type of portfolio. Because HUD does not and will not have the capacity to oversee project-based assistance programs, the likely incidence of fraud or abuse would be excessive in implementing this case-by-case strategy of mortgage restructuring, rental assistance, rehabilitation tools, and enforcement measures. We strongly believe that a market-based approach for restructuring this portfolio and providing future rental assistance is the best alternative.

Authorizing legislation for multifamily portfolio reengineering continues to be debated among the Congress, HUD, industry and tenant representatives.

## Regulations

### Part 901, PHMAP

This interim rule makes major changes to the Department's interim rule, published on January 17, 1992, covering the Public Housing Management Assessment Program (PHMAP). On July 1, 1996, we issued an audit related memorandum to the Acting Assistant Secretary for Public and Indian Housing, voicing our concerns about the potential effectiveness of the rule. PHMAP is the Department's response to Section 6(j)(1) of the United States Housing Act of 1937, as amended, calling for the Secretary to develop indicators for measuring the performance of public housing agencies (PHAs) in key areas.

We initially concluded that the revised PHMAP rule not only failed to address the deficiencies in the current PHMAP process, but it may have further weakened the process. We felt that the revised PHMAP process was overly flexible, difficult to implement, and prone to producing unreliable and incomplete information on the performance of PHAs. Another of our concerns was that PHMAP was limited in scope. For example, it did not encompass the quality of a PHA's housing stock or compliance with many major regulatory provisions.

We also reported that PHMAP was losing its ability to differentiate among PHAs in terms of their level of performance, primarily because PHMAP scores have risen, while the number of PHMAP designated troubled PHAs has fallen. However, we do not believe that the performance of all PHAs is improving to the extent indicated by their PHMAP scores. Rather, as some PHAs have become more experienced with the PHMAP process, they have learned how to "game" the system and maximize their scores, either by manipulating their PHMAP data or otherwise taking advantage of the system's weaknesses.

One of our major concerns centers around the fact that the PHMAP process requires PHAs to self-certify their performance annually to HUD. Given the potential to "game" the system, such PHMAP certifications need to be periodically confirmed. However, HUD lacks the resources to perform on-site PHMAP confirmations, and nonfederal auditors have experienced problems in their attempts to confirm such certifications. Without the benefit of adequate independent confirmations of PHMAP performance, HUD's ability to rely on PHAs' self-certifications of their PHMAP performance will be limited.



Subsequent to the reporting of our concerns, the Office of the Assistant Secretary for Public and Indian Housing (OPIH) agreed to implement numerous measures to tighten HUD's administrative controls over the PHMAP process to ensure the accuracy and reliability of PHMAP scores and performance designations. OPIH also agreed to stress in its interim rule that PHMAP was not a complete system for measuring the performance of PHAs, but that other aspects of a PHA's performance needed to be assessed apart from the PHMAP process. OPIH further agreed to publish its PHMAP rule as an interim rule rather than a final rule to more readily provide for further revision of the PHMAP process in the near future. Although we believe that these controls and measures are beneficial, we still believe that future refinements of PHMAP are necessary. Consequently, we intend to work closely with OPIH to ensure that PHMAP is made into a more effective process for evaluating the performance of PHAs.

## Part 985, SEMAP

This proposed rule would establish a system for measuring PHA performance in key Section 8 Tenant-Based Assistance Program (SEAMAP) areas, principally through self-certifications of performance and HUD's review of in-house performance data. The administrative structure of the proposed system would be similar to the system used to measure the performance of PHAs in the public housing program, i.e., the PHMAP.

Although we fully support HUD's development and implementation of a performance measurement system for the SEAMAP, HUD's draft SEMAP proposed rule, as originally developed, had many shortcomings. Too many of the SEMAP performance indicators were process oriented in that they measured PHA compliance with established regulations or policies rather than program results or impacts. Also, the system proposed by HUD relied on data in the Department's Multifamily Tenant Characteristics System to measure PHA performance. However, this system is undergoing major refinements, and the system's data are currently incomplete.

Although HUD's subsequent revisions to its draft SEMAP proposed rule appeared to improve the potential effectiveness of the rule, we reported that further revisions were still necessary. For example, the draft revised proposed rule failed to discuss the full array of sanctions available to the Department in the event of a PHA's nonperformance of its Section 8 obligations or its contractual default. Moreover, the rule provided little in the way of incentives for high performance on the part of PHAs.

At the close of this semiannual reporting period, the SEMAP proposed rule was undergoing review by the Congress. It is expected to be published in the Federal Register during December 1996.

## Witness Relocation

The Omnibus Consolidated Rescissions and Appropriations Act of 1996 authorized Section 8 rental assistance "for the relocation of witnesses in connection with efforts to combat crime in public and assisted housing pursuant to a request from a law enforcement or prosecutive agency." A total of 200 housing vouchers are being made available for this purpose. During the current reporting period, we coordinated with the Office of the Assistant Secretary for Public and Indian Housing in the development of procedures and controls for the use of the 200 housing vouchers for witness relocation purposes.

The procedural notice on witness relocation was issued on October 11, 1996.

## Single Family Assignment Program

In April 1996, the Congress passed legislation terminating the Single Family Assignment Program and shortly thereafter we concurred in a related Notice and Mortgagee Letter. We also concurred in an Interim Rule establishing loss mitigation procedures to replace the Assignment Program.





As part of HUD's reinvention efforts, the HUD OIG was instrumental in bringing to the Department's attention the need to consider terminating the Single Family Assignment Program because of its cost and inefficiency. In our view, the Assignment Program was a drain on scarce federal resources and did not help delinquent borrowers in the manner expected. Similar views of the program were provided by the General Accounting Office in a related review and a study conducted by HUD's Office of Policy Development and Research. Over the last two semiannual reporting periods, the HUD OIG has provided comments on several legislative proposals dealing with the termination of the Assignment Program and establishment of the new Loss Mitigation Program. Elimination of the Single Family Assignment Program is expected to save the Department at least \$150 million annually.

## **Approval of Lending Institutions and Mortgagees**

The HUD OIG nonconcurred in Final Rule (F.R.) 4106 which proposed the elimination of all provisions of the Code of Federal Regulations that contain HUD's approval requirements for supervised mortgagees, nonsupervised mortgagees, loan correspondents, investing mortgagees, etc. These approval requirements, which include maintaining minimum net worth, submitting audited financial statements, implementing quality control plans, and segregating escrowed funds, are designed to protect the financial integrity of HUD's mortgage insurance programs as well as HUD's customers. Instead, these requirements would be made available to mortgagees and program participants through other means, such as handbooks and mortgagee letters. The HUD OIG believes lender approval requirements are far too important in taking administrative sanctions to be relegated to mere handbooks or mortgagee letters. In addition, the courts may not attribute the force of law to handbooks and mortgagee letters, unlike regulations and statutes, which are always binding.

At the close of this semiannual reporting period, issuance of this Notice was pending.

## **CDBG Program; Dispute Resolution and Enforcement Actions**

When this proposed rule (F.R. 3298) was initially processed for clearance in December 1995, we generally supported its intended purpose of streamlining procedures for Community Development Block Grant (CDBG) enforcement actions, but were concerned that some of the proposed changes would frustrate enforcement activities. The rule expanded the actions that were subject to notice and an opportunity for a hearing and, in our view, would not advance the Department's goal of streamlining enforcement measures and ensuring that recipients satisfied performance measures. We felt that the expansion would more likely foster an increased number of administrative adjudications. We recommended that certain subsections of the proposed rule be modified and relocated in the document to alleviate our concerns.

The Department incorporated our suggestions into the proposed rule and we concurred in its revision in April 1996. The proposed rule was published in the Federal register on September 26, 1996 with public comments due November 25, 1996.

## **Health Care Facilities Insurance Program**

We nonconcurred on the proposed reorganization of the Health Care Facilities Insurance Program in HUD because of concerns with legislative restrictions requiring joint administration by HUD and the Department of Health and Human Services (HHS); needed approvals from HUD's Appropriations Committees prior to proceeding; and projected reductions in staffing and other costs to administer the program. We believe this program is beyond HUD's core mission and exceeds HUD's capacity and expertise to effectively manage.



## NOFAS

At the close of this semiannual reporting period, reorganization of this program was still pending.

### HOPE VI

This proposed HOPE VI Program NOFA announced the availability of \$480 million in public housing demolition, site revitalization, and replacement housing. In our view, the NOFA had a number of shortcomings, including: (1) it provided for too much subjectivity on the part of HUD in reviewing PHAS' narrative descriptions of their funding needs; (2) it lacked controls to ensure fairness and equity in the grant approval process; (3) it targeted funding to PHAS primarily on the basis of their size rather than the extent to which their housing units had deteriorated; and (4) it lacked a process for prioritizing available funding to PHAS having the greatest need for such funding. We questioned the NOFA's provision for using HOPE VI funds for fulfilling unsatisfied obligations under the Gautreaux Consent Decree, since the authorizing legislation did not specifically provide for funding activities related to litigation.

The NOFA was published in the Federal Register on July 22, 1996, and, in our opinion, generally failed to address our concerns.

### Moving to Work Demonstration Program

This proposed Notice announced HUD's Public Housing/Section 8 Moving to Work (MTW) Demonstration Program and included a Request for Qualifications (RFQ) inviting PHAS to express their interest in participating in the Demonstration Program. The program is authorized by Section 204 of the Omnibus Consolidated Rescissions and Appropriations Act of 1996. Pursuant to this Act, HUD is authorized to select up to 30 PHAS that administer Public and Indian Housing and Section 8 Programs to participate in the MTW Program. Under this program, HUD will select PHAS through a two-stage, merit-based process.

We questioned HUD's rationale for limiting eligibility for the MTW Program to "high performing" PHAS, i.e., PHAS scoring at least 90 under HUD's PHMAP, and to housing authorities selected for MTW through the program's Jobs-Plus initiative. The intent of HUD's Notice was to use these factors in determining basic qualifications to screen out potential applicants. However, we believe the intent of section 204(d) of HUD's Fiscal Year 1996 Appropriations Act is that such factors be used as "selection" criteria. By limiting eligibility for the MTW Program to "high performing" PHAS and housing authorities selected for MTW through the Jobs-Plus initiative, HUD has kept other potentially deserving housing authorities from being considered for participation. Our previous reviews have cast doubt on the reliability of PHMAP scores as a barometer for measuring PHA performance and capabilities. Further, we questioned HUD's authority for reserving \$5 million in Fiscal Year 1996 technical assistance and evaluation funds solely for "Jobs-Plus" sites, since HUD's 1996 Appropriations Act states that such funds are to be used in three separate categorical areas.

At the close of this semiannual reporting period, we were reviewing a revised version of this NOFA.



## Economic Development Initiative

### *Challenge Grants for Homeownership Zones*

We expressed concern with the selection criteria in this NOFA entitled *NOFA for FY 1996 - Program Guidelines for the Economic Development Initiative: Challenge Grants for Homeownership Zones*. Our concerns stem from our August 31, 1995 audit report on the Empowerment Zones (EZ), Enterprise Communities (EC), and Economic Development Initiative (EDI) selection process. In the audit we questioned the fairness of the selection process.

It is the current practice in HUD, as well as other federal agencies, that communities with EZ/EC designations are given additional points in funding considerations, i.e., NOFAs. Since we questioned the appropriateness of the initial EZ/EC designations, we continue to express concern that these communities are given priority consideration.

Our second concern involved the continued use of unspecified selection criteria such as "geographical diversity" and "diversity of approaches" in NOFAs. Such criteria are too subjective for evaluation purposes. We continue to ask that these criteria be well defined before the rating and ranking process to avoid the appearance of favoritism in selections.

The Department issued this NOFA without addressing our concerns.

### *Amendment to EDI Guidelines*

We reviewed the proposed amendment to the NOFA and Program Guidelines for the EDI Program and recommended that it not be issued until certain changes were made. Previously, specific portions of the grant had not been earmarked for specific activities.

The initial NOFA was issued to award \$50 million in challenge grants to homeownership areas. To facilitate the award of funds for this purpose, the issued NOFA provided for the awarding of 10 additional points to applications for homeownership zones as well as for community and individual investment corporations (CIICs). The amendment changed the way the Office of Community Planning and Development (CPD) was going to award the \$50 million under the NOFA by setting aside \$30 million **just** for homeownership zones and \$20 million **just** for CIICs and other economic development activities.

We nonconcur in the amendment to the NOFA. With \$30 million set aside for the award of funds just for homeownership zones, there was no need to award 10 bonus points for homeownership zone proposals since this would add nothing to the selection process. On the other hand, with \$20 million being set aside for CIICs and other economic development activities, CIICs would continue to be given preference by receiving 10 bonus points. Consequently, if a sufficient number of CIIC proposals were submitted, the entire \$20 million could be awarded to CIICs (since they are being given bonus points) in preference to other economic development activities. This, in our view, did not support CPD's contention that it was amending the EDI NOFA so it could fund a broad range of proposals. It is plausible that only two types of proposals would be funded, i.e., homeownership zones and CIICs.

In our view, the EDI NOFA proposal raised questions about the integrity of the EDI funding process. If the amendment were issued without addressing these items, we were concerned that the rules would be changed for those who have already prepared or submitted applications for funding. We suggested another window of opportunity be provided for all applicants.

CPD issued the proposed amendment. In response to our comment to expand the window of opportunity, they extended the submission period for applications by 30 days.

## Other Notices



## Designation of Public Housing Projects

Section 7 of the United States Housing Act of 1937 permits PHAS to designate projects for elderly families only, disabled families only, or elderly and disabled families. Section 10 of the Housing Opportunity Program Extension Act of 1996 amended Section 7 to provide PHAS more flexibility in designating such projects. One of the primary objectives of the Congress in enacting Section 10 was to alleviate concerns about crime, harassment, and generally dysfunctional living conditions arising from mixing elderly and non-elderly handicapped persons within the same public housing development or portions thereof. In part, this legislation resulted from a September 1995 HUD OIG proposal, made under the auspices of Operation Safe Home, to eliminate significant barriers impeding law enforcement efforts to reduce violent crime in and around public and assisted housing.

Notice PIH 96-60, issued on August 5, 1996, explains the new requirements enacted by Section 10.

We questioned whether Section 10 went far enough in providing PHAS with the flexibility they needed in designating projects. For example, Section 10 still required PHAS to submit plans to HUD on their proposed designations and to establish that their project designations were necessary to meet the housing goals and low-income housing needs of their jurisdictions. Notice 96-60 compounded this situation by incorporating into these requirements the need for PHAS to establish detailed, demographic profiles and rationales for their designations. We questioned whether these requirements were necessary to meet the intent of Section 10 and noted other areas of the Notice which appeared to limit the flexibility intended by the amendments. We recommended to the Secretary that HUD's implementing instructions and processes be streamlined to the maximum extent compatible with HUD's responsibility for approving PHAS' designation plans. This included delegating responsibility for approving PHAS' plans to HUD State/Area Offices.

At the close of this semiannual reporting period, Departmental action on our comments was pending.

## One Strike and You're Out

The purpose of this Notice was to provide PHAS with advance notification and additional information, clarification and guidance pertaining to PHMAP Indicator No. 8, Security, which covers the provisions of the Administration's "One Strike and You're Out" policy. The Security Indicator described in the Notice will be published in the Federal Register as part of the PHMAP final rule. The Notice was issued on July 25, 1996.

Our primary concern with the Notice was that it failed to include our recommended language for the Security Indicator, which called for PHAS to engage in cooperative relationships with their local police departments. This language was not made part of the Security Indicator because PHAS expressed concern to HUD that they might inappropriately be held accountable for the lack of cooperation of their local police departments and be responsible for the actions and efforts of their local police to improve local law enforcement. This was an overreaction to our recommendation as we intended that PHAS take advantage of all the potential cooperative efforts with police available at the local level. Such efforts include community policing, establishing police substations at public housing sites, taking part in special law enforcement efforts like Operation Safe Home, youth counseling, and other youth-related activities, physical security assessments, etc. Moreover, we have been advised by local police chiefs that increased efforts need to be made to improve local police/PHA cooperation to address crime, drugs, and violence at public housing sites. They consider this to be one of the most critical needs in the war against crime in public housing. Consequently, we believe that PHAS' performance in this area needs to be assessed through the PHMAP process. As previously noted, we believe that the newly revised PHMAP process provides for documenting any performance requirements that PHAS are unable to meet due to circumstances beyond their control. Consequently, we do not believe that HUD was justified in excluding our recommended language from the PHMAP Security Indicator.



Action was taken to require PHAs to have a cooperative system for reporting incidents of crime to local police in order to rate an outstanding performance.

## Mark-to-Market Intermediaries

On July 2, 1996, HUD announced the implementation of a Congressionally authorized demonstration that is designed to restructure the financing of projects that have FHA insured mortgages and receive Section 8 rental assistance. The proposed Notice provides additional guidance on how HUD intends to carry out the program, including information on arrangements with third parties who will be delegated authority to carry out all or some portion of the legislation. Our nonconcurrency on the proposed Notice questioned the widely varying selection criteria depending on the type of entity applying; the need for better defined standards in considering prior work experience in the related business activity; required certifications regarding disciplinary proceedings and identity of interests which do not include principals, officers and staff; and fees to the intermediaries paid for by those applying for assistance under the program, which would create a conflict of interest.

At the close of this semiannual reporting period, issuance of this Notice was still pending.

## Coinsured to Fully Insured Mortgages

HUD OIG nonconcurred on the proposed Notice for the conversion of coinsured multifamily mortgages to full insurance and processing coinsurance partial or full payments of claims for coinsurance lenders. Conversions are meant to reduce government costs and benefit coinsuring lenders by minimizing the risk of defaulting on their portfolios if it appears the lenders may not be able to meet their financial obligations on individual loans that are in default.

We expressed concerns about the need for a methodology for determining whether a conversion of a loan would be less costly to the government than if the loan remained coinsured, and whether the lender would realize a net profit from the conversion. Another condition for accepting requests for conversion that we objected to was that the loan must be in default for at least 6 months. Waiting 6 months or longer for processing would likely be allowing more time for the loan or property to decline, thereby increasing the government's costs. We also nonconcurred with the provision that HUD would be entitled to only 50 percent of net cash generated by project operations to service HUD held notes resulting from any partial payment of claims. Considering that the partial claim is being paid by HUD and the lender is not assuming any of this additional risk, all the net cash should be paid to HUD.

At the close of this semiannual reporting period, this Notice had not been finalized.

## HOME Commitment and Deobligation Requirements

HUD provides HOME funds to grantees annually to coincide with the beginning of their program years. HOME Program authorizing legislation provides that funds not invested by a grantee within 24 months after receipt must be recaptured by HUD. To be invested, funds must be placed under a legally binding agreement, commonly referred to as a commitment.

CPD's Notice to program participants on the commitment and deobligation of 1994 HOME Program funds did not adhere to the HOME Program's authorizing legislation, and we therefore nonconcurred in its issuance. The recapture process provided for in the Notice considered the sum of commitments in Fiscal Years 1994, 1995 and 1996 — on a "first-in-first-out" basis — in determining the need to deobligate Fiscal Year 1994 funds for a lack of investment. In our view, commitments of 1995 and 1996 funds should have no bearing on whether or not 1994 funds were committed or invested in 24 months. Also, the meaning of several terms in the Notice needed to be clarified to avoid confusion among grantees in determining which funds should be deobligated and recaptured.



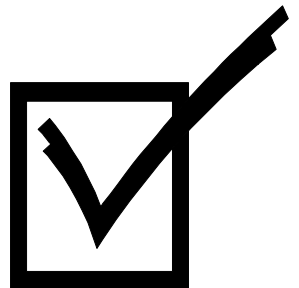
Based on the HUD OIG's comments, the Notice has not been issued. However, the draft Notice placed in Departmental clearance was in fact being used to implement the recapture provisions of the HOME Investment Partnership Act.

# Audits

In addition to its financial audit work, reviews of legislation and regulations, and activities in support of Operation Safe Home, the HUD OIG's Office of Audit continued its general oversight of HUD operations through audits. During this reporting period, the Office of Audit issued 12 reports on internal HUD operations and 23 reports on grantees and program participants. Cash recoveries, including those obtained under Operation Safe Home, amounted to \$18 million, with another \$9 million in commitments to recover funds.

Some of the more significant audit results include the following:

- A HUD OIG audit disclosed that despite receiving more than \$73 million in low-rent housing funds, the living conditions of residents at a housing authority have not noticeably improved.
- An interim review of the Section 203(k) Rehabilitation Home Mortgage Program showed that extensive program abuse is occurring around the country by lenders, investors and nonprofits.
- HUD/FHA mortgagee approval was withdrawn from a corporation for causing HUD to insure unnecessarily high risk loans totaling \$3.7 million.
- The HUD OIG identified 31 projects with excess insurance proceeds totaling \$4.7 million that should be paid to HUD.
- A \$40 million capital grant to be used to preserve affordable housing at a multifamily project was in question after HUD allowed the owner to accept a purchase offer from an organization whose eligibility was questionable.



## Community Planning and Development

The Office of Community Planning and Development (CPD) administers programs that provide financial and technical assistance to states and communities for activities such as community development, housing rehabilitation, homeownership opportunities, homeless shelters, neighborhood restoration, and economic and job development. Grantees are responsible for planning and funding eligible activities, often through subrecipients. During this reporting period, HUD OIG audits focused on the Homeless Initiative and various grant programs.

### Homeless Initiative

In response to Congressional and Secretarial requests, the HUD OIG audited the HUD NEW ORLEANS Field Office's oversight of a nonprofit organization administering HUD's Single Family Property Disposition Homeless Initiative. A review of 43 of the organization's 108 leases found only one tenant meeting the definition of homeless, and disclosed several violations over 6 years, including leasing properties to relatives and employees. The NEW ORLEANS Office of CPD approved the organization for participation in the Homeless Initiative without requiring them to submit information showing they were qualified for participation. In our opinion, if CPD had properly reviewed the organization's application, the organization would not have been approved. In addition, NEW ORLEANS CPD did a poor job of monitoring the organization. Although CPD was aware of the organization's program abuses, instead of demanding compliance CPD approved them to lease additional properties.

The *Baton Rouge Advocate* disclosed the organization's abuses in an extensive press story. As a result, the U.S. Attorney opened a criminal investigation. Prompted by adverse press reports, CPD sent a special team to investigate the organization. The team issued a critical report which prompted CPD to immediately terminate the organization from the program.

The HUD OIG audit recommended that the HUD State Office Coordinator oversee CPD and Single Family Housing's administration of the Homeless Initiative to ensure proper approval, monitoring, and oversight of participants and their properties, appropriate training and supervision of HUD personnel, and appropriate coordination between the two offices. (Report No. 96-FW-151-0001)

Following the New Orleans audit discussed above, the HUD OIG reviewed the Homeless Initiative to see if it met HUD's goal of promoting homeownership while continuing to support the goal of assisting homeless persons and families move to self-sufficiency. We interviewed staff at headquarters and field offices, reviewed HUD regulations, and summarized relevant portions of internal and external audit reports issued throughout the country by the HUD OIG and General Accounting Office. In addition, we reviewed the results of the recent investigation of Homeless Initiative providers in Louisiana performed by CPD.

We believe the Department should eliminate the Homeless Initiative in order to concentrate on other more efficient and effective programs. The Initiative does not receive direct funds from HUD; therefore, HUD staff do not consider the program a priority. In fact, HUD does not have objective measures of program success and does not adequately monitor the program. The inadequate monitoring has allowed problems with unqualified providers and ineligible tenants to persist.

Tenants who did meet the definition of homeless were often overcharged. The Homeless Initiative limits the allowable rents to the property's operating costs. Yet a HUD OIG audit of the RICHMOND, VA Field Office and a CHICAGO, IL provider found that tenants were charged more than the operating costs of the property. In LOUISIANA, providers could not support the rent amounts charged. Had HUD staff properly monitored the providers, recurring





problems could have been minimized. In LOUISIANA, which has one of the largest concentrations of properties, CPD had not monitored the program since 1993.

The Offices of CPD and Housing share administration of the Initiative. However, these two offices have differing goals and objectives which has led to little cooperation in administering the program. The HUD OIG has identified many problems in the Initiative since 1993, but HUD has been unable to take adequate corrective action. As a result of the HUD OIG audit, HUD announced a suspension of any new leases effective January 1, 1997, so that a thorough review of the policy and program issues can be undertaken.

In August 1996, HUD OIG's District Inspector General for Audit in the Southwest District testified at a House Committee on Banking and Financial Services hearing during which he discussed problems with the Initiative nationwide, and stated the HUD OIG's position that the program should be terminated. (Report No. 96-FW-151-0801)

## Grant Programs

During the reporting period, HUD OIG audited a number of grant programs under the jurisdiction of the Office of CPD. These programs provide a variety of opportunities for achieving the needs of communities across the country. The CDBG Program provides annual grants on a formula basis to entitled communities to carry out a wide range of community development activities directed toward neighborhood revitalization, economic development, and improved community facilities and services. Participants in the HOME Program may use funds for tenant-based assistance, housing rehabilitation, assistance to first-time homebuyers, new construction, site acquisition and improvements, demolition, and relocation. The HOPE Program provides homeownership opportunities for eligible families to purchase local government owned single family properties. Program funds may also be used for the acquisition and rehabilitation of single family properties for sale and occupancy by families at affordable prices. The Section 108 Loan Guarantee Program allows communities entitled to CDBG grants a means to finance up-front, certain large scale projects beyond the scope that can be financed by annual grants.

At the request of Secretary Cisneros, the HUD OIG reviewed the operations of the City of CAMDEN, NJ (grantee), pertaining to its CDBG, HOME and HOPE 3 Programs, along with the collection of miscellaneous revenue from completed Urban Development Action Grants and repayments made on a loan guaranteed under the Section 108 Loan Guarantee Program. Our review showed significant weaknesses in the grantee's organizational structure and financial management system.

The administration of HUD programs is fragmented among several city departments and subrecipients. Lines of authority and communication are muddled and the absence of accurate, complete and timely financial records seriously affects the grantee's ability to administer the programs. Significant weaknesses in the grantee's financial management system have adversely impacted the grantee's assurance that HUD funds are properly safeguarded and that adequate financial records are maintained according to HUD requirements.

The grantee did not fulfill its commitment to repay a Section 108 loan, and instead, used \$1.8 million in CDBG funds to make payments on the debt, which is owed the city. More significantly, \$916,808 of the amount was not authorized to be drawn down because the funds had not been included in the CDBG budget or charged to any approved activity or program year. In addition, we were unable to determine the propriety of the remaining \$918,244 charged to various economic development and public facility activities.

The audit also disclosed that subrecipients have not been adequately monitored by the grantee to assure compliance with federal requirements. Over \$163,500 in expenditures were not adequately supported. Finally, effective administrative practices necessary to ensure that costs paid from grant funds are allowable have not been implemented. The audit found payments of \$38,875 to be unallowable and another \$299,240 to be unsupported.



The audit recommended actions that will strengthen the grantee's future administration of HUD programs. The grantee should also be required to repay over \$801,000 in ineligible costs and either repay or document \$1.3 million in unsupported costs. (Report No. 96-NY-241-1005)

DELAWARE COUNTY, PA, a CDBG Program grantee, sold land in 1979 and 1981 that had previously been acquired with CDBG funds, but did not credit net sales proceeds of \$1.2 million to program income, as required. The grantee has earned a minimum of \$516,310 in interest on the land sales proceeds since April 1988, but has not credited these earnings to CDBG Program income. Part of these interest earnings were transferred to the grantee's general fund and subsequently spent on non-program activities. A HUD OIG audit recommended that HUD require the grantee to reimburse its CDBG fund \$1.7 million for the sales proceeds and interest earned from 1988 to 1994. HUD should also determine, based on the grantee's records, the amount of interest earned on the sales proceeds after December 1994 and require reimbursement of this amount to the CDBG Program. (Report No. 96-PH-249-1815)

Of \$1.2 million in HOME funds awarded through July 1995 for homeowner-occupied rehabilitation projects in NORTH CHARLESTON, SC, \$885,529 or over 70 percent were awarded to the same contractor. A HUD OIG audit found that 30 of the 44 projects were rehabilitated by the contractor; only 6 of the 30 projects were competitively bid. Discussions with some of the homeowners disclosed that the city's former senior construction advisor controlled the selection of and made arrangements for the contractor. This resulted in apparent favoritism and restricted competition. Because most HOME rehabilitation projects were awarded to a single contractor, we considered the quality and completeness of the work performed and concluded that some specified work was not completed and the cost appeared high for certain work.

The audit also identified six homeowner rehabilitation projects totaling \$184,670 arranged by one former short-term owner, and having first mortgages and HOME loans which exceeded their tax appraisal values. Two of these same projects have homeowners whose monthly mortgage payments require an unreasonable portion of their total income. The HOME Program does not have specific requirements for judging the credit capacity of potential borrowers. However, prudent business practice dictates that any mortgage loan be supported by property value which protects the lender in the event of default.

In addition to making specific recommendations to correct the deficiencies identified in the report, the audit recommended that HUD initiate administrative sanctions against the former senior construction advisor and possibly his supervisor. (Report No. 96-AT-244/255-1813)

During a limited review of COBB COUNTY, GA's operation of the CDBG and HOME Programs, the HUD OIG found that the county did not follow required procedures when it contracted with a consultant to administer its HUD programs; paid \$112,832 for CDBG administrative services and \$80,340 for rehabilitation inspections and work write-up services which we believe should have been performed by the contract administrator; and did not adequately monitor the contract administrator's performance. We recommended that HUD require the county to ensure that language in future administrative contracts is clear, reimburse the CDBG Program \$112,832 for duplicate administrative fees, disallow the \$80,340 paid to the inspector and any additional payments of this type, and implement a formal monitoring system. (Report No. 96-AT-241-1826)

A HUD OIG audit of the Department of Housing Services, County of Montgomery, NORRISTOWN, PA, found that homeowners who received assistance in rehabilitating their properties were generally eligible and program income was properly credited to the applicable HUD programs. However, we found serious problems in other areas of the grantee's administration of its HUD funded residential rehabilitation programs.

The grantee did not ensure that contractors completed all work specified in the rehabilitation work write-ups due to weaknesses in the system for performing inspections before and after rehabilitation, and in supervising the



performance of inspectors. As a result, 903 work items, with an estimated cost of \$138,347, were not completed or were completed poorly. Apparent conflicts of interest existed involving grantee and subgrantee personnel. In addition, the grantee did not obtain required cost documentation from rental property owners who performed rehabilitation work on their own properties; consistently obtain price quotations from an adequate number of sources; publicly advertise invitations for sealed bids or buy from the lowest priced vendor; ensure that low- and moderate-income persons benefited from the Rental Rehabilitation Program; or obtain documentation that participating contractors had liability insurance coverage. The audit also found a lack of assurance that rental units were maintained in a decent, safe and sanitary condition after rehabilitation.

The audit made a number of recommendations to assist the grantee in complying with HUD requirements while providing much needed housing rehabilitation assistance. (Report No. 96-PH-241-1016)

As a result of this audit and subsequent HUD OIG investigative work, the executive director of Montgomery County Housing Services, an inspector and a rehabilitation specialist were fired.

Gwinnett County in LAWRENCEVILLE, GA, generally followed HUD requirements when it procured the services of a professional consultant to administer its HUD funded and related programs. However, a HUD OIG audit found that the county could improve its contracting procedures. The county did not clearly describe whether its HUD program administrator's contract was a fixed price or cost reimbursable agreement, adequately analyze the reasonableness of the contractor's proposed rate for overhead/profit, adequately solicit proposals, or document its price analysis. The county also paid its contract administrator \$159,460 for unsupported personnel costs, and paid \$51,416 for additional rehabilitation inspection and work write-up services we believe the contract administrator should have performed.

Among other things, the audit recommended that HUD require reimbursement to HUD programs of any portion of the \$159,460 determined not to be reasonable, disallow the \$51,416 paid to the inspector and any additional payments of this type made since the audit, and instruct the county to establish controls to prevent similar unnecessary payments in the future. (Report No. 96-AT-241-1824)

The HUD OIG reviewed the distribution of selected Fiscal Year 1993 State Block Grant Program funds by the Office of the Commissioner of Municipal Affairs (OCMA) of the Commonwealth of PUERTO RICO in HATO REY. Based on our review of OCMA's process used in rating 43 projects, we determined that OCMA generally complied with the method of distribution described in their Final Statement. However, we noted instances in which OCMA did not adequately document its reasons for not funding some activities or funding less than the amount requested. As a result, some applications may not have been properly considered or may have been improperly reduced. In addition, in regard to a \$15 million special fund for solid waste disposal activities, OCMA could not provide documentation evidencing (1) eligibility of selected landfill sites for funding under the 1993 program, and (2) the reasonableness of the distribution of funds for each municipality. We recommended that HUD advise OCMA that it must maintain proper documentation to support and justify its funding decisions. (Report No. 96-AT-241-1817)

At the request of HUD's Ohio State Office, the HUD OIG reviewed the HOPE 1 and HOPE 2 Grant Programs as administered by a nonprofit organization in WESTERVILLE, OH. We found that the quality of rehabilitation work was acceptable, and that the organization complied with the Davis-Bacon Act and with resident training requirements. However, the organization did not provide realty services and incorrectly used over \$75,000 of HOPE 2 project sales proceeds to pay for real estate services instead of making these funds available for low-income persons. The organization also charged inadequately supported and ineligible costs to the programs and charged a HOPE 2 project for excess management fees. The audit recommended repayment to the HOPE 2 Program for the incorrectly charged real estate services and all other ineligible costs, and documentation for unsupported costs. (Report No. 96-CH-205/218-1007)



The HUD OIG reviewed the propriety of the selection and award of CDBG Program funds to subgrantees in the 1994-95 funding year for the City of POMONA, CA (grantee). We also reviewed allegations of conflicts of interest, preferential treatment, and program requirement violations. In addition to the allegations we reviewed, there were allegations of discrimination against certain ethnic or racial groups and organizations. These allegations are being addressed separately by HUD's Office of Fair Housing and Equal Opportunity.

The allegations of conflict of interest and preferential treatment did not prove to be valid. The allegations concerning program violations were valid, but those conditions were not violations of HUD requirements. The concern was that two subgrantees may have violated CDBG Program requirements when they did not achieve nonprofit status or meet the conditions of the Request for Proposal (RFP) to participate in the program. The grantee's procedures, however, allowed the grantee the prerogative of waiving some of its RFP requirements.

The audit recommended that HUD instruct the grantee to require its program staff to enhance existing policies and practices for accepting, ranking, and funding proposals for CDBG activities. (Report No. 96-SF-241-1807)

Following a citizen complaint, the HUD OIG reviewed the RICHMOND, VA Redevelopment and Housing Authority's accounting for the Rehabilitation Loan Program. The review disclosed that, contrary to program regulations, the Authority charged bank loan servicing fees to the CDBG Program, violated loan servicing agreements, improperly matched revenues and expenses, and reduced the amount of CDBG funds available for eligible activities. In addition, the Authority's accounting controls were weak. The Authority neither verified the accuracy of remittance reports nor received the same remittance reports as the bank, did not properly reconcile bank statements, and did not maintain a complete data base to document the portfolio of rehabilitation bank and CDBG loans. In addition to recommendations to address the specific deficiencies found during the audit, the audit recommended that HUD verify that the Authority implements the necessary accounting controls. (Report No. 96-PH-185-1819)

Based on testing of economic development activities funded through the CDBG Program for the City of READING, PA (grantee),



the HUD OIG determined that the grantee adhered to HUD guidelines for performing financial feasibility analyses, documented eligibility and national objectives determinations, and performed follow-up monitoring to assure that loans achieved the intended public benefits in terms of jobs created or retained. The grantee's controls were also adequate



## Public and Indian Housing Programs

to achieve program objectives for economic development activities and safeguard related assets, except for two specific weaknesses involving loan underwriting and servicing. We made appropriate recommendations to correct the deficiencies found and prevent their recurrence. (Report No. 96-PH-250-1820) During this reporting period, at the request of Secretary Cisneros, we reviewed: (1) the Detroit Housing Department to determine if it was complying with its agreements with HUD; (2) the Chicago Housing Authority's progress in eliminating longstanding problems; and (3) the results of the HUD recovery team's efforts at the San Francisco Housing Authority. Additionally, we audited various public and Indian housing authorities' overall activities.

### Agreements — Detroit and HUD

At the request of Secretary Cisneros, the HUD OIG reviewed the DETROIT, MI Housing Department (DHD) to determine if DHD was complying with its agreements with HUD and had initiated actions to eliminate longstanding problems. HUD classified DHD as operationally and financially troubled in 1979 and it has remained a troubled housing agency. DHD has consistently scored well below the requirement for a standard performer. The Memorandum of Agreement between HUD and DHD established performance goals for the development of management systems and programs for treating the severely distressed developments. The Agreement also targeted the following areas for improvement: vacancies, modernization, uncollected rents, unit turnaround, outstanding work orders, annual unit inspections, tenants' accounts receivable, operating services, and rehabilitation of units. The city agreed to, among other things, prepare a separation plan and remove DHD from the city government as well as accelerate plans to renovate and modernize some developments. The review found that DHD is addressing its agreements, and has initiated or has planned actions to correct problems identified in past HUD reviews and consultant reports. However, most of the actions have future target dates for completion. In the past, DHD promised actions to correct problems but did not follow through on them, and HUD did not compel corrective actions. For DHD to meet HUD's goals for public housing, it needs to follow through on these actions.

The audit suggests that HUD closely monitor DHD's progress, provide any technical advice and assistance needed, evaluate actions to determine if these actions eliminate the problems they were designed to correct, and take steps to revise ineffective actions. In addition, we recommend that HUD seek receivership for DHD if DHD and the Detroit City Council do not demonstrate the will or capacity to follow through on their agreements with HUD. (Report No. 96-CH-201-1809)

### Chicago Housing Authority

Secretary Cisneros requested that the HUD OIG review the CHICAGO, IL Housing Authority to assess their progress in eliminating longstanding problems. In order to establish a foundation of the actions needed to correct the Authority's problems, we used HUD's Blueprint for Recovery (issued shortly after HUD's takeover of the Authority), the Authority's Long-Term Plan, and its most recent Memorandum of Agreement with HUD. Our assessment showed that the Authority is improving its operations on many different fronts. With some exceptions, the Authority is on target in implementing corrective actions relating to, among other items, vacancy reduction and unit turnarounds, funding for maintenance and modernization activities, annual inspections, admissions and evictions, and rent collections.



Although the Authority has improved security, modernization and housing redevelopment, work order and preventive maintenance operations, it needs to make significant adjustments in each of these areas before it will have effective systems that will adequately serve the residents. (Report No. 96-CH-201-1815)

In addition to the general review requested by the Secretary, the HUD OIG also reviewed the maintenance operations at the Chicago Housing Authority as a follow-up to a January 1994 HUD OIG audit. We found that the Authority has made progress toward addressing some of the severe problems which have adversely affected its maintenance operations for many years. In addition, the Authority has set goal dates for implementing improvements in other areas of its maintenance operations. The current HUD OIG audit did find, however, that the Authority has not yet fully implemented its new integrated computer system for tracking maintenance work orders and inventory of materials and supplies. The Authority was in the very early stages of establishing a preventive maintenance program, and had not fully trained resident "screening panels" or adequately defined restrictions relating to the maintenance mechanic position.

Although all of the recommendations in our previous audit report were not implemented, we recommended that the previous recommendations be administratively closed. Where appropriate, we have repeated some of our previous recommendations, modified others, and added new ones to address conditions found during our current audit. (Report No. 96-CH-201-1810)

## **Recovery Team Efforts — San Francisco**

In a series of four interim reports, the HUD OIG reported its evaluation of HUD's recovery efforts at the SAN FRANCISCO, CA Housing Authority. The interim reports covered, respectively: (1) security and the Section 8 Program; (2) reorganization, resident participation, and community involvement; and (3) housing operations (including maintenance and management), redevelopment, and modernization. The fourth report summarized the 6-month team effort and provided HUD OIG's observations to the Acting Assistant Secretary for Public and Indian Housing who heads the recovery effort.

During the initial phase of the recovery effort, the team assessed the Authority's operations and developed an ambitious 6-month plan that addresses the well known problems of the Authority's lack of competent leadership, physical decay of the housing, poor performance in collecting rent, and the high level of crime existing at its housing developments, as well as other problems.

Much of the recovery plan has yet to be effected, including the recruitment of key managers. CVR Associates, an organization specializing in HUD housing operations, will soon be taking over the team's role in the day-to-day operation of the Authority and the recovery plans will be included in an agreement between the Authority, CVR and HUD. HUD must follow through with the team's intention that the plan's implementation be closely monitored. The continuation of the recovery efforts is complicated due to the changeover of personnel as HUD team members leave and interim and permanent managers assume responsibilities. Many of the problems (especially those related to the physical condition of the housing) will require a sustained effort over a period of years. Additionally, HUD needs to make sure that the city's environment does not impede or reverse the Authority's progress.



## PHA/IHA Reviews

Following a citizen complaint, the HUD OIG audited the All Indian Pueblo Housing Authority (AIPHA) in ALBUQUERQUE, NM. The audit found that AIPHA's Homeownership Counseling/Tenant Relations and Finance Departments are well run and in general compliance with HUD regulations. AIPHA's innovative acquisition program may be a viable alternative to existing development programs, if AIPHA monitors contractors and ceases using operating reserves for development purposes.

AIPHA is, however, experiencing problems with its Comprehensive Grant Program (CGP) and procurement and contract administration. These problems have resulted primarily from AIPHA's failure to develop or apply appropriate policies and procedures, frequent turnover of staff, and former employees who may not have been familiar with Comprehensive Grant requirements.

We initially included in our draft findings specific recommendations for corrective action. However, by the completion of our audit work, it appeared that AIPHA may dissolve into housing authorities servicing individual pueblos or smaller collections of pueblos. In order to address this possibility and provide HUD with the flexibility to address the pervasive problems in AIPHA operations, we replaced specific recommendations with a series of options available to improve housing operations within the cited pueblos. (Report No. 96-SF-207-1005)

A HUD OIG audit of the SAN JUAN, PR Public Housing Administration's (PRPHA) CGP and Drug Elimination Program (DEP) funds found that the PRPHA had not remitted to HUD nearly \$1.2 million of unspent 1990 DEP funds; accounting records for the 1990 DEP were deficient and \$347,839 could not be traced to supporting records; a management agent charged \$433,736 in duplicate costs to CGP; and procurement actions were not properly documented. The audit recommended that the unspent funds be recovered, unsupported costs be documented or repaid, duplicate costs be recovered, and future procurement actions be fully documented. (Report No. 96-AT-201-1821)

A HUD OIG audit found that Pascua Yaqui (PY) Neighborhood Association, Inc., TUCSON, AZ, had not developed the administrative capability needed to fulfill the requirements of the Tenant Opportunity Program (TOP). The TOP enables residents to meaningfully participate in the management of their housing developments by providing, among other things, technical assistance and training relating to the management of a project, including securing support to carry out these activities. PY had not developed policies and procedures necessary to carry out its activities or a work plan and strategies for achieving the goals/tasks set out in its TOP grant. In addition, the Association had not implemented procedures to properly account for TOP grant funds and could not locate documentation to fully support any of the \$19,973 in expended grant funds. The report concludes that PY is not currently capable of managing its existing grant program. Due to the seriousness of the problems found in the audit, we recommended that the Southwest Office of Native American Programs continue its current suspension of the Association's TOP grant drawdown authority until adequate administrative and financial procedures are established. (Report No. 96-SF-209-1808)

In POTTSVILLE, PA, the HUD OIG reviewed transactions covering the acquisition of The Female Grammar School Building by the Schuylkill County Housing Authority, for the purpose of consolidating and relocating their administrative offices, maintenance warehouse, and Section 8 offices to a central downtown location. The review disclosed that appraisal reports and property records support the Authority's purchase price of \$100,000, and the former executive director acted independently in the purchase and planned rehabilitation of the property.

However, a professional estimate of rehabilitation costs necessary before occupancy was not performed prior to purchase. As a result, needed rehabilitation made the building cost prohibitive. In addition, attempts to dispose of the property have failed to realize the Authority's original purchase price. Therefore, we concluded that the former executive director did not act in the best interest of the Authority and recommended that the property be





readvertised for sale. We also recommended that rehabilitation cost estimates be prepared and reviewed prior to approval of future property acquisitions. (Report No. 96-PH-209-1814)

The HUD OIG performed limited work on tenant screening and eviction practices at public housing agencies, particularly in regard to keeping criminals out of public housing. This work included visits to the SAN FRANCISCO, CA Housing Authority. Although our work did not include a complete review of the Authority's practices, we identified several ways the Authority could keep criminals out. Some of those ways include third-party sources for predicting applicant behavior, specific screening guidelines, pursuing arrest reports, and tenant relocation for those who witness crimes or file complaints against criminals. We recommended that HUD share these ideas with the Housing Authority and consider whether other authorities might benefit from them, particularly in light of President Clinton's March 1996 policy on crime in public housing. (Report No. 96-SF-201-1806)

The Housing Authority of the County of Chester, WEST CHESTER, PA, did not effectively administer its public housing activities. A HUD OIG audit found that several key positions remained vacant for extended periods of time, contributing to a lack of direction and accountability. The Authority did not adequately implement necessary policies and procedures in the tenant accounts receivable, admissions and occupancy, procurement, internal controls, and travel areas. The Authority also failed to correct deficiencies cited in prior HUD management reviews. In addition, the Authority did not rehabilitate vacant units in a timely manner, had no preventive maintenance plan, and did not inspect units annually to ensure compliance with housing quality standards. The audit made specific recommendations designed to improve operations, including procedural changes and strengthened controls. (Report No. 96-PH-202-1018)

A HUD OIG follow-up review of cash receipts at the BURKESVILLE, KY, Housing Authority disclosed probable missing receipts of \$2,055 in addition to the missing receipts noted in a special cash audit by an independent auditor (IA), bringing total cash shortages to \$13,003. The HUD Kentucky State Office of Public Housing arranged for the special IA cash audit after noting a potential problem with cash receipts, and reported a tentative loss to HUD OIG. The former executive director resigned and a limited denial of participation was issued against him. The new executive director appears to have satisfactorily addressed other management concerns found during the review. (Report No. 96-AT-206-1811)

A HUD OIG audit of the CAMDEN, NJ Housing Authority disclosed that the Authority did not comply with program requirements. In general, the Authority did not provide residents with decent, safe and sanitary housing. Despite the Authority's receiving more than \$73 million in program funds, the living conditions of residents have not noticeably improved, particularly at the family type developments. The unsightly conditions of the grounds, buildings and common areas and the fact that most of the inspected units did not meet minimum housing quality standards, are evidence that the Authority is not providing suitable housing for all residents.

Additionally, the Authority did not comply with its own procurement policy or HUD regulations; did not adequately monitor subgrantees under the DEP; exceeded recommended staffing levels and improperly compensated employees for unused vacation leave and overtime; improperly monitored a Youth Sports Program grant; and did not adequately control disbursement of project funds. These deficiencies occurred because the former Chairwoman and the Board did not always operate the Authority in the interest of the residents. As a result, almost \$1.8 million in unsupported costs and almost \$38,000 in ineligible costs were incurred.

In an attempt to improve the Authority's operations, the HUD New Jersey State Office issued a limited denial of participation against the former Chairwoman and HOPE VI Program Administrator. This action was intended to send a message that officials will be held accountable for their actions. In addition, the State Office has initiated biweekly meetings with the Authority. Nonetheless, we believe that if the Authority is going to improve its operations, HUD needs to modify the current form of management. Accordingly, we recommend that HUD consider one of these three



options: (1) joint management consisting of the existing Authority administration and HUD; (2) appointment of a third party to manage the Authority; or (3) takeover of the Authority by HUD. (Report No. 96-NY-204-1004)

A HUD OIG audit found that while the ROCK ISLAND, IL Housing Authority is striving to improve procedures, it has not made reasonable progress in meeting the goals it established for the Vacancy Reduction Program. The Authority received over \$2 million in Vacancy Reduction Program funds to repair 235 vacant units within 2 years. After 14 months, only 51 units had completed repairs. Additionally, the Authority did not hire the proposed number of employees or contract labor to carry out the initiatives as stated in their plan. The Authority has also allowed prepared, vacant units to remain vacant for extended periods of time. The Authority reported in its 1995 PHMAP certification that the annual average turnaround time for vacant unit preparation was 159 days. HUD requires an average turnaround time of 30 calendar days for vacant units, with a goal of 10 days. The audit recommended that the Director of Public Housing in the HUD Illinois State Office assure that the Authority takes actions to correct the weaknesses cited in the report. (Report No. 96-CH-202-1008)

At the request of the Director of Public Housing in the HUD Albuquerque Office, the HUD OIG surveyed the City of ESPAÑOLA, NM, and its administration of HUD programs. The report did not note any indicators of abusive practices or irregularities that would warrant an audit. However, the report did note where an accountant was paid after the contract had expired. The report gave several recommendations including placing the city on a HUD pre-award review. Because the city previously assured HUD that corrective action would be taken, the report also recommended that HUD implement administrative sanctions for any continued delay or violation of HUD procurement regulations. (Report No. 96-FW-202-1004)

The HUD OIG reviewed the adequacy of the DISTRICT OF COLUMBIA Housing Authority's controls over the Section 8 certificate and voucher payments system, and found that the Authority had taken many positive steps to strengthen its controls, especially since it was placed under a court-appointed receiver. Now that this foundation for effective management has been laid, the overall integrity of the Section 8 Program needs to be restored. Controls need to be strengthened to protect against fraud, waste and abuse; the reliability of the Section 8 database needs to be upgraded; and overpayments to landlords need to be identified and recovered. The Housing Authority expressed overall agreement with our findings and recommendations, and the HUD DC Office concurred that positive steps had been taken to strengthen operations. (Report No. 96-AO-203-1002)

A HUD OIG audit of the BUFFALO, NY Municipal Housing Authority found that the Authority is generally providing residents with decent, safe and sanitary housing, and is complying with HUD regulations. However, the audit disclosed that some improvements are needed. For example, the Authority's management information systems do not provide accurate and timely information. The maintenance structure does not provide for proper staff accountability; controls over inventories are not adequate; unit vacancy rate has consistently exceeded 20 percent; staff levels exceed HUD's suggested levels; the purchase order system is cumbersome; and PHMAP certification contains conclusions based on inaccurate data. The audit recommended specific improvements that should assist in eliminating these deficiencies and strengthen the Authority's administration of its Low-Rent Housing Programs. (Report No. 96-NY-201-1002)

A HUD OIG audit of the City of LOCKPORT, NY Housing Authority found that the housing stock is well maintained and residents are being provided decent, safe and sanitary units. However, we noted that procurement procedures are not followed; leave records are not properly maintained; equipment inventory controls are inadequate; personnel policies do not reflect current Authority practices; and administrative actions are needed to improve morale within the Authority. The audit recommended various changes to correct the deficiencies. (Report No. 96-NY-202-1801)



## Single Family Housing Programs

During this reporting period, we conducted audits in the following Single Family Programs and functions: Section 203(k) Rehabilitation Home Mortgage Program, Assignment Program, Real Estate Owned Properties, Partners For Affordable Home Ownership, Property Disposition, and Construction Deficiencies. While each program has a specific goal, all Single Family Housing Programs are designed to encourage loans to first-time homebuyers and others who might not qualify for conventional mortgage loans.

### Section 203(k) Rehabilitation Home Mortgage Program

The Section 203(k) Single Family Rehabilitation Home Mortgage Program is HUD's primary program for the rehabilitation and repair of single family properties. The program enables the borrower to finance both the acquisition and rehabilitation of a property with just one loan, at a long-term fixed or adjustable rate.

While the HUD OIG's audit of this program in continuing an interim report issued this period shows that extensive program abuse is occurring around the country by lenders, investors, and nonprofits. The 203(k) Program, as currently designed, is too risky because it permits investors, nonprofits, and lenders to walk away with big profits, leaving HUD liable for the mortgages. High claims and defaults are occurring on loans to investors and nonprofits and seem likely to increase.

The abuses have not been isolated to any one person, group, or area of the country. Investors and nonprofit borrowers have carried out fraudulent or otherwise unnecessary land transactions to generate money for either the borrower or identity-of-interest parties. They have not made required down payments, and have obtained loans on properties which did not need significant repairs and should not have been in the program. Investors have been paid for rehabilitation work that was not performed. Unfortunately, mortgage lenders have contributed to the abuse. One large lender, for example, has repeatedly circumvented HUD loan origination requirements to assist otherwise unqualified borrowers in obtaining loans and has charged ineligible and unsupported fees.

We believe that HUD should immediately disqualify investors just as it has done in the 203(b) Loan Program, and take precautions to prevent the other program abuse that is occurring. (Report No. 96-AT-221-1823)

To further demonstrate the abuses to the Section 203(k) Program, a HUD OIG audit of Waters Mortgage Corporation in PLANTATION, FL, included a review of 107 loans originated by the nonsupervised mortgagee. We found that for 79 of 107 loans, Waters furnished false or incomplete data to HUD to use in deciding whether to insure the loans. Waters did not require the borrower (a nonprofit) to contribute the required down payments; instead, in 67 cases, the purchase price was inflated to create excess loan proceeds of \$342,336. A portion of the excess was then given to the borrower to satisfy the down payment requirement. For 95 of the loans, Waters paid ineligible and unsupported closing costs to itself and to the borrower. Although the borrower had demonstrated an inability to timely complete rehabilitation work on previous loans, Waters continued to approve the borrower for additional loans.

The borrower eventually sold 95 properties. The new buyer, a nonprofit with an identity-of-interest to Waters Mortgage, assumed 51 of the loans. Waters financed the remaining 44 with new 203(k) loans totalling \$218,500 more than the original loans. The extra funds were needed for closing costs and additional rehabilitation work. Because of the actions of this mortgagee, HUD has insured unnecessarily high risk loans totalling over \$3.7 million. As of the completion of our review, 8 properties with loans totalling \$572,550 were in the process of being



conveyed to HUD and 3 other loans totalling \$237,450 were in default. We recommended that HUD's Mortgagee Review Board issue sanctions against Waters Mortgage. (Report No. 96-AT-221-1004)

In September 1996, the Mortgagee Review Board voted to withdraw HUD/FHA mortgagee approval of Waters Mortgage for 5 years. The Board also levied a \$214,000 civil money penalty against the corporation. The ruling was based on the recommendations of HUD's Office of Lender Activities and the findings of the HUD OIG audit.

## Assignment Program

A HUD OIG audit report on selected operations of the Single Family Assignment Program found that without aggressive servicing and collection activities, mortgagors are not dissuaded from falling further behind in their mortgage payments, thereby increasing mortgage costs and foreclosures. The objective of this program is to help mortgagors achieve debt-free home ownership while minimizing HUD's losses from mortgage defaults. The program, which at the time of the review included 92,000 mortgages with an outstanding principal balance of \$4.4 billion, was meant to provide temporary relief for mortgagors experiencing financial difficulties. However, over time, it has evolved into a program that subsidizes housing for many of its participants. This evolution can be primarily attributed to the practice in recent years, of devoting the bulk of staff resources to processing Assignment Program applicants, leaving few staff to carry out the essential servicing functions that actually guide mortgagors back to self-sufficiency.

The report's recommendations included selling bankruptcy cases already in inventory as soon as possible or aggressively monitoring them; considering the use of a quick reaction team to review the assigned properties inventory and then taking the necessary servicing actions; and revising goals to include addressing cases based on an aging of the portfolio as opposed to the number of foreclosures. The Deputy Assistant Secretary for Single Family Housing did not disagree with our report finding but only partially agreed with our recommendations pending the termination of the Assignment Program. However, the long term problems must still be addressed and our recommendations provide interim measures to shore up the program while HUD considers its options. (Report No. 96-AO-121-0002)

## Real Estate Owned Properties

A HUD OIG audit of the Boston, MA, State Office, Single Family Housing Division, Production and Real Estate Owned (REO) Branch, disclosed that the REO has not established and implemented adequate internal controls to monitor and assess the performance of Real Estate Asset Manager (REAM) contracts. HUD contracts with REAMS to manage and oversee properties while they are in HUD's inventory. REAMS are responsible for the maintenance and management of the property from the time it is assigned to them until the property is sold. REAMS are required to provide protection and security of the properties through periodic inspections, repairs and general upkeep. The audit found that the REO had not developed controls/procedures to track the receipt of inspection reports from REAMS, track complaints against REAMS, or communicate and document concerns about unsatisfactory REAM performance; and that the REO was not performing site visits to the REAM or property locations to monitor the REAM's performance. As a result, the REO had no assurance that work billed for was performed. The audit recommended that HUD require the implementation of necessary controls and procedures to evaluate the performance of REAM contractors. (Report No. 96-BO-123-0001)

The HUD OIG received complaints about HUD's sale of Real Estate Owned (REO) properties by the ARIZONA State Office. The complainants claimed that the sale prices of the properties, and the related mortgages insured by HUD, often far exceeded the real value of the properties, and that the purchasers of these properties were being taken advantage of by both HUD and the real estate agents involved.



A HUD OIG review of recent sales showed bids were significantly above list prices. A comparison of property list prices to sales prices for 74 properties found that the total bid amount was \$5,878,926, or 116 percent of the list prices of \$5,065,300. Bid prices ranged from 82 to 151 percent of the list price.

The audit report recommended that HUD review the existing policy for determining the maximum insurable mortgage for REO sales to determine whether the policy can result in excessive risk to the mortgage insurance fund and/or payment of excessive prices by homebuyers. If this is the case, HUD should consider revising the policy to limit the maximum insurable mortgage to a certain percentage over the list price. The Deputy Assistant Secretary did not believe a change in policy was needed, but did develop a sales contract addendum to advise buyers when the purchase price exceeds the HUD appraised value. (Report No. 96-SF-123-0805)

## Partners For Affordable Home Ownership

The HUD OIG reviewed nine nonprofit organizations in DETROIT, MI, that bought properties at a 30 percent discount under the Partners For Affordable Home Ownership Program. The intent of the program is to expand home ownership by providing the nonprofit agencies an incentive to buy the homes, make needed repairs and resell the homes to qualified low-income buyers. HUD restricts the sale price the nonprofit agencies can charge the homebuyers to the net development cost plus 10 percent of the net development cost. The review disclosed that six of the nine nonprofit organizations complied with HUD requirements. Three, however, made unallowed profits. They sold HUD homes purchased at a 30 percent discount for amounts higher than allowed by HUD. One of the organizations also violated HUD's conflict-of-interest requirements; another did not have an adequate accounting system to capture property related costs and revenues; and the third did not have a source of funds to finance its participation in the program. Among other things, we recommended prepayment on the applicable homeowners' mortgages in the amount of expenses that cannot be supported or were ineligible. (Report No. 96-CH-229-1009)

## Property Disposition

In response to a Congressional request to the Secretary, the HUD OIG reviewed the Single Family Property Disposition Branch in HUD's SANTA ANA, CA, Office. The review disclosed that concerns of potential mismanagement were unsubstantiated. The only negative finding was that 10 of 114 properties we reviewed were allowed to receive FHA insurance even though they did not meet minimum property standards. We do believe, however, that the Santa Ana Area Office can better manage its program by increasing its use of sales incentives to market its properties, and changing sales and bid handling procedures to deliver greater client satisfaction. (Report No. 96-SF-123-0804)

At the request of the HUD Illinois State Office Contracting Officer, the HUD OIG audited a NOBLESVILLE, IN firm with whom HUD contracted in April 1991 to manage and sell assigned HUD properties. The contract was terminated in July 1991, but HUD continued to pay the firm commissions. In February 1996, after HUD stopped the payments, the firm filed a complaint claiming that the Department owed it \$229,746 plus interest and damages. A HUD OIG audit, however, concluded that HUD overpaid the firm for commissions and bonuses. Further, the firm could not adequately support its claimed expenses, and could not provide originals of cancelled checks and invoices for \$113,093 in claimed expenses. (Report No. 96-CH-222-1814)

## Construction Deficiencies

While a HUD OIG audit is ongoing, the HUD OIG issued an interim report this period to the HUD Fresno Area Coordinator about construction deficiencies in FHA insured single family homes in the City of MERCED, CA. Over the



last few months, the HUD OIG has reviewed many homeowner concerns involving the accelerated deterioration of insured and uninsured homes built in certain Merced subdivisions.

Our review confirmed that homes in at least two subdivisions are suffering from serious settlement problems. As a result of these conditions, the local assessor's office has already reduced the value of two homes to zero. Certain homes with construction deficiencies also contain mold and spores which have affected or may affect the health of FHA homeowners. Our review also showed that the construction contractor did not always comply with either the Uniform Building Codes or HUD Minimum Property Standards.

## Multifamily Housing Programs

Our immediate concern is with the existing situation — the health of the homeowners and HUD's financial exposure for the FHA-insured homes. However, corrective action must also be applied to future construction. (The City of Merced is currently processing a development which involves between 4,800 and 6,600 residential dwelling units.) (Report No. 96-SF-229-1809) HUD administers a variety of Multifamily Housing Programs. In addition to projects with HUD held or HUD insured mortgages, the Department owns multifamily projects acquired through defaulted mortgages. It also subsidizes rents for eligible low-income households living in multifamily housing. During this reporting period, the HUD OIG reviewed the disposition of excess insurance proceeds; preservation activities at a multifamily project in Hawaii; owner and management agent activities; and asset management operations at the Dallas Area Office.

## Recovery of Excess Insurance Proceeds

The HUD OIG is engaged in a nationwide effort to identify and seek recovery of excess insurance proceeds for HUD. Excess insurance proceeds are associated with defaulted, tax-exempt bond financed, HUD insured projects. The excess proceeds are funds which sometimes remain in bond accounts after the trustee applies HUD insurance proceeds to redeem the underlying bonds following a mortgage default. We believe it is inequitable for anyone other than HUD to receive such funds since HUD paid the insurance claim used to retire the bonds. In some cases, trustees have held the funds for years.

After determining from HUD field office records that 89 projects in the SOUTHEAST/CARIBBEAN DISTRICT had mortgages backed by tax-exempt bonds, the HUD OIG identified 31 projects with excess funds totaling \$4,703,255. Trustees had disbursed excess funds for 20 of the 31 projects totaling \$3,598,360 to project owners, bond purchasers and others. The HUD OIG requested the assistance of the Assistant General Counsel, Southeast/Caribbean District, in recovering the \$4.7 million in excess funds identified, or, in some cases, coordinating with the Offices of General Counsel and Housing on recovery efforts already begun. (Report No. 96-AT-119-0801)

## Review of Preservation Activities

In response to requests from the Deputy Assistant Secretary for Multifamily Housing and Senator Daniel Inouye's Office, the HUD OIG reviewed preservation activities at Kukui Towers, a 380-unit complex co-located with another mirror-image 380-unit building, Maunakea Towers, both in HONOLULU, HI. In order to preserve affordable housing at Kukui Towers, HUD agreed to provide a \$40 million capital grant tied to the sale of the building to a priority purchaser. Our review found that the HUD Hawaii State Office did not require the owner to accept the first bona fide offer from a priority purchaser, which was made by the Kukui Towers Resident Council. Instead, the owner selected an offer from a community based organization (CBO), Hui Kauhale, Inc., whose eligibility at the time



the offer was accepted was questionable. The Hawaii State Office also failed to adequately review the Resident Council's support petitions before accepting the owner's selection of the CBO's offer.

Although our review continues, our interim report recommended that HUD return the Kukui Towers grant funds to the U.S. Treasury. As an alternative, if HUD can justify the effective use of the capital grant funds for preservation when the property value does not appear to support the grant amount, we recommended three other options.

The Assistant Secretary for Housing did not agree with our findings and recommendations. As a result, the capital grant closed on September 25, 1996, with the CBO as the grantee. Our disagreement will be discussed in our final report. (Report No. 96-SF-119-0806)

## Owners and Management Agents

The HUD OIG continues to report in its Semiannual Reports to the Congress Regulatory Agreement violations by owners and management agents of multifamily housing projects. These violations cause the physical deterioration of the projects and lead to financial decline. The cases below are in addition to the equity skimming violations discussed in the Operation Safe Home Chapter.

A HUD OIG audit of the owner of a 425-unit complex in NORFOLK, VA, disclosed that, contrary to HUD requirements, the owner reduced the project's overdrafts during mortgage default. The overdrafts represented the owner's debt payable to the bank. The owner stopped making mortgage payments and the project's revenue of \$298,280 was improperly applied against the outstanding overdrafts. In addition, as a result of improper management of cash disbursements, the owner paid nearly \$59,000 in ineligible and unsupported expenses. The audit recommended that the owner pay HUD the amount of overdrafts reduced during mortgage default through June 3, 1996, when HUD started managing the project. The owner should also be required to repay the ineligible costs and justify the unsupported costs. (Report No. 96-PH-212-1019)

At the request of the HUD Portland Multifamily Housing Division, the HUD OIG audited the owner of two multifamily projects in McMinnville and Albany, OR. HUD expressed concern over the deteriorating physical condition of the properties, certain financial transactions that had come to their attention, and the owner's disregard for instructions from HUD to bring the projects' physical condition and financial records into compliance with HUD requirements. We concluded that the owner disregarded HUD requirements and instructions in order to save funds for prepayment of the HUD insured mortgages. As a result, residents lived in substandard conditions and over \$93,000 of HUD funds were used for ineligible or unsupported expenses. In addition, the owner improperly paid management fees to itself and other unapproved property managers, and did not properly maintain the projects' books and records.

The audit recommended that HUD: (1) either allow the owner to prepay the insured mortgages, terminate all Section 8 housing assistance payment contracts, and provide Section 8 vouchers to all eligible residents for both properties; or (2) require the owner to make all necessary repairs to the projects and repay all ineligible and unsupported costs. If the owner chooses to stay in the HUD programs and is unwilling to voluntarily repair and reimburse the properties, then HUD should pursue appropriate legal actions. (Report No. 96-SE-212-1002)

The HUD OIG audited the operations of a management agent in Bethesda, MD, and its two principals (owners) for six projects. Although the agent/owners maintained the projects in good physical condition, they withdrew \$1.1 million in excess of surplus cash. Part of that amount, \$105,865, was withdrawn from one project while it was in default. Although the agent/owners have repaid \$236,950 to the projects, \$902,458 is still due. The improper withdrawals contributed to the default of one project and reduced the amount of operating cash available for the other projects. The agent/owners' representative stated that the funds were distributed because the agent/owners misunderstood HUD regulations, and adjusting entries performed by an independent auditor reduced surplus cash



after the distributions were made. The audit recommended that the agent/owners be required to reimburse HUD and/or the projects for the ineligible withdrawals and amounts still owed. (Report No. 96-PH-214-1021)

Based on problem indicators found during an examination of independent auditor work papers, the HUD OIG reviewed a DALLAS, TX management agent's payments for boiler and machinery insurance. The review found that the agent disbursed at least \$87,700 in project funds for invalid insurance. The "insurer" and the agent's president lacked legal authority to sell insurance to the projects. Consequently, nine HUD projects, including three in default, paid for services they never received. This occurred because the agent's president ignored or did not adequately consider applicable state insurance laws and the impact of HUD requirements. The audit recommended that HUD require the project owners and the agent to repay the projects for the unallowable insurance payments and obtain valid insurance as needed. (Report No. 96-FW-214-1002)

At a multifamily complex in WILMINGTON, DE, a former project employee, who was the son of the owner's executive director/ chairman, embezzled nearly \$8,000 by depositing payroll tax checks into his personal bank account. In January 1996, the former employee was sentenced to 1 year probation and 6 months house arrest. In addition, a HUD OIG audit found that the former management agent disbursed project funds for ineligible and unsupported costs; the owner did not obtain HUD approval for disbursements from restricted reserve funds; and the management agent did not have an acceptable or auditable system for allocating project payroll and fringe benefits to the project. During the course of the audit, the management agent began to address certain deficiencies. Among other corrective actions, the audit recommended reimbursement of ineligible disbursements. (Report No. 96-PH-212-1020)

Based on the HUD OIG's calculation of surplus cash for Fiscal Year 1995, a project owner in PORTSMOUTH, VA, made \$85,700 in excess distributions. Calculations by the owner's certified public accountant revealed a surplus cash deficiency of \$93,500 for Fiscal Year 1995. In addition, expenditure documents and/or a project policy necessary to support a number of payments from project funds were not available or nonexistent. The owner is currently meeting the project's debt service requirements. However, the absence of internal controls over the disbursement of project expenditures is alarming. Such conditions are an early warning for potential default in the future. We asked the Director, Multifamily Division, HUD Virginia State Office, to advise us what action that office plans to take regarding these matters. (Report No. 96-PH-121-1821)

## Asset Management Operations

The HUD OIG audited certain operations of the HUD DALLAS Area Office Asset Management Branch. The Branch services mortgages, direct housing loans, and grant contracts, and conducts occupancy, on-site management and financial statement reviews, along with physical inspections. The purpose of the audit was to identify the causes for problems HUD OIG staff have encountered at the Branch during recent audits of multifamily and management agent operations. Problems included inadequate records and monitoring, and lack of follow through on corrective actions.

The audit identified ineffective supervision as the primary cause for serious problems in the Branch. Supervisors did not establish adequate controls or procedures or provide adequate guidance to staff; properly plan, prioritize or oversee staff activities; or effectively use staff and other resources.

We found that physical inspections and management reviews of troubled projects were not planned, reviewed or adequately tracked. Supervisors did not implement review procedures for audited financial statements or controls over the review of monthly accounting reports. In addition, the Branch did not maintain effective controls or provide adequate oversight over management agent approval and documentation.





HUD management is currently taking effective action to address HUD OIG concerns. HUD OIG will perform a corrective action verification review within a year to ensure that management actions have effectively resolved the reported deficiencies. (Report No. 96-FW-111-0002)

## Administration

### Performance Measurement

Government-wide requirements for developing and implementing systems for measuring program performance are stated in the Chief Financial Officers Act of 1990 and the Government Performance and Results Act of 1993 (GPRA). The importance of GPRA is to put in place a process where agencies such as HUD can clearly inform the public, and other interested parties, of the purpose of their programs, how the programs are measured, and the results obtained with taxpayers' dollars.

In response to GPRA, HUD is in the process of identifying and implementing performance measures and developing information systems to accumulate and report on the Department's progress toward meeting those measures. In an effort to assist HUD in its transformation from a compliance monitor to a performance based organization, the HUD OIG reviewed the area of performance measure development and made the following recommendations.

- ➡ HUD should make developing a strategic plan the top priority in its continuing efforts to develop and implement performance measures. A strategic plan is necessary to ensure that HUD has a clear understanding of customer wants; has a mission that will serve customer needs; and develops performance measures that provide the information necessary to determine if it is achieving its mission.
- ➡ HUD can improve its performance measure development effort by getting input on measures from all levels of the organization, customers and stakeholders, and using strategic planning results as the basis for aligning and limiting the number of performance measures.
- ➡ HUD can measure the outcomes of grant programs by establishing performance contracts with its grantees. Grant programs are the most difficult programs for measuring outcomes because of the flexibility and wide latitude grantees have in using grant funds. However, while measuring outcomes is difficult, it is not impossible. Given HUD's current focus on increasing the number of programs operated by local agencies through grants, measuring outcomes of these programs is essential. Performance contracts with grantees and disincentives for nonperformance are essential to the success of a performance measurement system for grant programs. (Report No. 96-SE-182-0801)

### Multifamily Information Systems

The HUD OIG reviewed the development of the Office of Housing's Multifamily National System (MNS), which was the Department's latest attempt at consolidating and updating the several systems currently in place that were meant to manage HUD's portfolio of multifamily properties. We were forced to redirect the focus of our review when midway through, the Deputy Assistant Secretary for Multifamily Housing Programs stopped all development for the MNS project and began work on a new system. The reason given for this decision was the belief that MNS was not the solution to the problem as originally intended and that further work would be fruitless. Following that decision, we redirected our review to look at the history of multifamily systems development efforts and determine the root causes, if possible, for the Department's repeated failures in developing useful information systems.



HUD has a long history of attempts to develop information systems for Multifamily Programs. Despite numerous efforts during the past 20 years, the Department has not been able to develop a system that provides timely and accurate information on the multifamily property portfolio. Also, automated systems have repeatedly been cited as an internal control material weakness in the annual financial audit of FHA. We identified five separate, major development efforts. None was successful and, other than elaborate plans, nothing substantive was produced. Long-standing problems plaguing Multifamily's information systems include fragmentation of data, inadequate system interfacing, inaccessibility of data, poor system design and testing, inadequate training, inadequate system support, and inadequate teamwork between headquarters and the field.

Discussions with Multifamily management and staff revealed the following likely causes for the poor quality of these information systems:

- ➡ Lack of upper management support.
- ➡ Insufficient qualified systems staff.
- ➡ Inadequate budget.
- ➡ Lack of cooperation between the Office of Information Technology (IT) and Housing.
- ➡ Organizational problems.

After deciding to end the MNS project, Multifamily chose a long-term and a short-term approach to solving their information systems problems. In the short-term, they intended to stabilize field office MNS and construct a data warehouse as a central repository for multifamily information. However, we have several concerns with these plans. Multifamily staff must depend on IT for the accomplishment of the stabilization plan. IT has been working on the plan since June 1995, spent over \$100,000 so far and has yet to produce any material improvements.

We also have concerns about the planning and implementation of the data warehouse. The decision to establish a data warehouse was made to fill a recognized shortfall in the operational systems. However, in a rush to establish the warehouse, Multifamily management has overlooked some fundamental principles, which could prevent them from fulfilling their desired objectives. The most important consideration here is with the quality of the data within the warehouse. Subsequent to our review, Multifamily informed us they had established a Data Quality Team and were working on a plan to identify and address data quality problems.

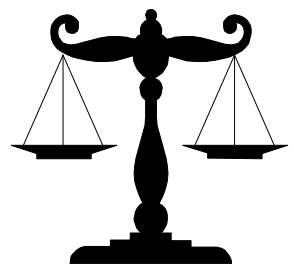
We recommended changes in Multifamily's organizational structure for systems development and maintenance, use of a different funding mechanism, use of a rapid application development approach, and improvement in the relationship between headquarters and IT and headquarters and field staff. (Report No. 96-DP-166-0002)

# Investigations

In addition to its Operation Safe Home workload, the Office of Investigation is responsible for pursuing allegations of irregularities or abuses in HUD's programs and activities, as well as violations of law or misconduct on the part of HUD participants and beneficiaries. During this reporting period, total investigative efforts (including Operation Safe Home), resulted in 2,245 persons arrested for drugs/violent crime, 210 persons indicted, 82 persons convicted, and cash and other recoveries totalling \$31.9 million.

Some of the more significant investigation cases resulted in:

- ➔ An agreement by a mortgage corporation to pay the federal government \$7 million under the False Claims Act to settle allegations that the corporation falsely certified the eligibility of borrowers for insured mortgages.
- ➔ The sentencing of a loan officer to 1 year in prison and \$201,000 in restitution to HUD for originating \$1 million in fraudulent HUD insured mortgages.
- ➔ The sentencing of a real estate investor to 62 months in prison for leading a scheme that cost federal agencies, mortgage lenders and individual mortgagors in excess of \$2.1 million.
- ➔ The indictment of the founder of a not-for-profit corporation for defrauding federal, state and city agencies of at least \$5 million in public grant funds earmarked for the homeless, handicapped and teenaged mothers.
- ➔ The indictment of a development company owner for receiving \$1.6 million in subsidy funds to repair three multifamily projects damaged by an earthquake, and using a portion of the funds for his personal benefit.



## Single Family Housing Programs

HUD OIG investigations continued to uncover instances of wrongdoing by mortgagee personnel and real estate brokers in the origination of loans. In addition, we found numerous cases in which speculators and investors engaged in strawbuying and equity skimming schemes. A strawbuyer is paid to act as the buyer of a property and then transfers the property to a speculator who eventually defaults on the mortgage. Equity skimming is the practice of taking rent receipts but not making the mortgage payments.

### Loan Origination

First Union Mortgage Corporation, ST. LOUIS, MO, agreed to pay the federal government \$7 million to settle allegations that they falsely certified the eligibility of borrowers for insured mortgages who subsequently defaulted on their loans, resulting in a \$4.3 million loss to HUD. The payment by First Union Mortgage is the largest ever obtained in a case brought under the False Claims Act involving HUD's Single Family Mortgage Insurance Program. The payment settles a 1994 lawsuit brought by the government against First Union Mortgage. The suit alleged that First Union, then named Cameron-Brown Mortgage Company, misrepresented to HUD that borrowers on 43 properties had made the required down payments when in fact they had not.

This investigation by HUD OIG began in 1986 after information was received from the St. Louis HUD Director of Housing Development. The information was about Richard C. Powelson, nationwide real estate lecturer on no money down purchases and author of the book *How to Make A Million Dollars in One Day*.

Powelson wanted to purchase Cedar Glen Apartments, a multifamily project, for resale purposes; however, he needed investors for the purchase. He broke up the project into four parts and obtained investors who could qualify for loans under the single family loan program. He told them he would pay \$2,000 to each investor for obtaining FHA insured single family loans and deeding the properties back to him after closing. All transactions took place the same day and Powelson made his "million dollars" that day.

This intensive investigation involved over a staff year of time and required locating and interviewing investors in Missouri, Texas, and Canada.

The following results in LONG ISLAND, NY, were obtained this reporting period by a HUD Fraud Task Force operating out of New York City and made up of Agents from HUD OIG, FBI, IRS, and the Postal Inspection Service.

A loan officer was sentenced to 1 year in prison and 3 years of supervised release, and was ordered to pay \$201,000 in restitution to HUD. The officer was also ordered not to have any involvement in the mortgage field during the supervised release period. He was previously charged with originating \$1 million in fraudulent HUD insured mortgages, resulting in \$500,000 in losses to HUD.

Two speculators were sentenced to combined sentences of 6 months in prison, 6 years of supervised release, and \$60,000 in restitution to HUD. They were also barred from the mortgage banking field during the supervised release period. On the same date, a real estate agent pled guilty to conspiracy to defraud HUD. All three individuals were involved in a scheme to originate \$700,000 in fraudulent HUD insured mortgages, resulting in \$300,000 in losses to HUD.

A real estate agent was sentenced to 8 months in prison, 5 years supervised release, and \$195,000 in restitution to HUD. The agent originated \$600,000 in fraudulent HUD insured mortgages, resulting in \$195,000 in losses to HUD.



An attorney, a bank loan officer, a mortgagor and a title company employee were sentenced for conspiring in the origination of conventional and HUD insured mortgages valued in excess of \$1.5 million, receiving \$35,000 in kickbacks and failing to record mortgage liens. The attorney received 5 years probation and was ordered to stop practicing law and pay \$10,000 in restitution. The attorney had received a \$10,000 kickback from a title company for the attorney's referral of business. The bank loan officer and the mortgagor were sentenced to a total of 8 years probation and ordered to pay \$35,000 in restitution. The loan officer was also charged with receiving \$25,000 in kickback payments from a title company for referring the bank's mortgage business. The title company employee received 8 months confinement, 5 years probation, and was ordered to pay restitution in an amount yet to be determined. The actions of these individuals led to the failure of a bank and extensive losses to HUD and the Resolution Trust Corporation.

The former closing attorney for the HUD MEMPHIS, TN Office was sentenced to 42 months incarceration followed by 60 months of supervised release, and ordered to pay \$3,817,123 in restitution and a \$200 special assessment fee. The attorney previously pled guilty to wire fraud, mail fraud, and embezzlement of \$80,233 in HUD funds. During a number of HUD property closings, the attorney delayed the transfer of HUD funds and used the HUD sales proceeds for his personal business. The scheme was discovered when a severe storm prevented the attorney from conducting any closings and interrupted the cash flow. The investigation was conducted by the HUD OIG.

A probation revocation hearing resulted in a SEATTLE, WA real estate speculator having his probation revoked and being returned to prison. Following a HUD OIG investigation, the speculator was convicted in a federal trial for false statements and conspiracy in a loan origination fraud scheme involving multiple HUD insured properties. He was sentenced to 5 years in prison and ordered to pay \$282,185 in restitution to HUD. The speculator completed the term of incarceration and was on probation when the probation office determined he was again attempting to speculate in real estate and not disclosing this or his income to their office.

In TAMPA, FL, a real estate broker was sentenced to 27 months imprisonment and 3 years supervised release, and ordered to pay \$45,654 in restitution. The broker was previously convicted of conspiring to defraud HUD and the Department of Veterans Affairs (DVA) and making false statements to defraud the United States. The broker conspired with mortgagors and mortgagee officials to fraudulently sell DVA guaranteed and FHA insured properties by assisting the mortgagors in submitting false mortgage applications. Several other defendants have been indicted and additional individuals are expected to be charged. The investigation was conducted by the FBI, IRS and the HUD and DVA OIGs.

In another case in Tampa, an investor who conspired to submit false loan documents to obtain mortgages was sentenced to 15 months imprisonment and 3 years supervised release, and ordered to pay \$11,285 in restitution. The investor was previously convicted of money laundering. The investor purchased HUD owned properties and sold them at inflated prices. Additional defendants are expected to be charged. The investigation was conducted by the FBI, IRS, and the HUD and DVA OIGs.

The former vice president of a mortgage company in VIRGINIA BEACH, VA, who also operated a nonprofit organization that assisted potential low-income mortgagors, was sentenced to 36 months probation and ordered to repay \$5,300 to HUD. The defendant previously pled guilty to theft of government property after a joint FBI/HUD OIG investigation found that he sold HUD and DVA owned properties without a real estate license, and used part of the sales commissions he fraudulently received to provide subsequent homebuyers with their down payments. In addition, the homebuyers were required to obtain their mortgages from either the defendant's company or that of one of his friends. The defendant also opened a fictitious bank account in the name of a local real estate company which was to be used for the deposit of the HUD and DVA commission checks.



In ST. LOUIS, MO, a former real estate investor, who was incarcerated for 15 months for submitting false statements about HUD insured properties, had her probation revoked and was sentenced to an additional 6 months of incarceration and 14 months of supervised probation upon her release. The investor was remanded to the custody of the U.S. Marshals Service pending the posting of either \$10,000 in cash or a parcel of real estate with \$10,000 in equity.

The investor's probation was later revoked because of allegations that she used a false social security number, inflated her wages, and fabricated her rent history in applying for six different credit cards. Specifically, she used an employer's tax identification number in lieu of a social security number in applying for the credit. In addition, she stated in the applications that she had been a renter during the time that she was actually incarcerated. This was a HUD OIG investigation.

A LONG ISLAND, NY real estate broker pled guilty to charges of making false statements to HUD. The plea resulted from a \$1 million mortgage fraud investigation involving multiple defendants. The broker, along with others, caused the origination of fraudulent mortgages by providing false information to HUD. HUD losses exceed \$600,000. This investigation, conducted by the HUD OIG and Postal Inspection Service, was predicated on the receipt of fraud referrals from HUD's Quality Assurance Division.

Following an investigation by the FBI and HUD OIG, a BALTIMORE, MD speculator pled guilty to submitting false statements to HUD in order to receive HUD insured mortgages. The speculator, along with two other individuals who have already been sentenced, submitted false employment and credit information and gift letters for individuals who would otherwise not have qualified for the insured mortgages. Losses to the Department were approximately \$250,000.

A ST. LOUIS, MO tax preparer/bookkeeper agreed to plead guilty to one count of submitting false statements to HUD. The individual assisted unqualified mortgagors in purchasing properties by supplying them with false social security numbers, W-2s, and pay stubs. This investigation was conducted jointly by the HUD and Social Security Administration OIGs.

Following a joint FBI/HUD OIG investigation, a former mortgage officer with First Security Federal Savings Bank in FREDERICK, MD, stipulated in federal court to a consent judgment in which he agreed to forfeit \$30,000 in commissions he was due on FHA insured mortgages. He furnished or caused to be furnished false information regarding the creditworthiness of the applicants for these mortgages. The mortgage officer was not prosecuted because none of the mortgages has defaulted.

A SEATTLE, WA borrower was ordered by an Administrative Law Judge to pay a \$10,000 civil penalty. A Program Fraud Civil Remedies Act complaint was filed earlier against the borrower charging him with false statements in the application and settlement statement for an FHA insured loan. The borrower stated he had no association with the seller and would reside in the property. However, a HUD OIG investigation disclosed that \$30,000 had passed between the buyer and seller prior to the sale, and the borrower never resided in the house and, in fact, placed a HUD Section 8 tenant in the house.

Two mortgagors in SPOKANE, WA, entered into a settlement agreement requiring them to pay \$3,000 to HUD for having falsely reported their income when applying for an FHA insured mortgage. The settlement resulted from a HUD OIG investigation and referral for prosecution under the Program Fraud Civil Remedies Act.

In MEMPHIS, TN, a federal grand jury returned a 10-count indictment charging an individual with submitting false statements to HUD and false bankruptcy information. The individual obtained a Section 203(k) FHA insured



mortgage using the name and social security number of a relative. The individual, who owned and operated a mortgage brokerage service, prepared false verifications of employment, applications, and tax returns to obtain the mortgage. After he defaulted on the property, he twice filed bankruptcy under Chapter 13 to prevent foreclosure. The loss to HUD is estimated at \$50,000. Another defendant signed a pretrial diversion agreement. The investigation was conducted jointly by the FBI and HUD OIG.

The ongoing WASHINGTON, DC FBI/HUD OIG Task Force investigating mortgage fraud in the Northern Virginia area resulted in a 17-count indictment of a former real estate agent for false statements and aiding and abetting. In addition, a temporary arrest in El Salvador was requested from the Office of International Affairs, Criminal Division, DOJ, because the agent fled to El Salvador.

Following a joint FBI/HUD OIG investigation in BALTIMORE, MD, the former president and owner of a mortgage company was indicted on eight counts of bank fraud and making a false statement to HUD. In addition to submitting a false 1994 financial statement to HUD, the former president allegedly devised a scheme to falsify financial statements made to two banks with which he had lines of credit in order to persuade them to extend to him additional credit. Estimated losses to the banks are \$5 million.

A MEMPHIS, TN federal grand jury returned a nine-count indictment charging two individuals, a mother and son, with submitting numerous false documents to a mortgage lender in an attempt to obtain an \$86,000 mortgage for the purchase of a HUD property. The false documents were uncovered by two alert employees of the HUD Memphis Office during a review of the file prior to endorsement by the lender. This was a HUD OIG investigation.

A Federal Grand Jury in DALLAS, TX, returned an eight-count indictment against two individuals charging them with conspiracy to defraud HUD, submission of false documents to obtain an FHA insured mortgage, and mail fraud. A joint investigation by the FBI and HUD OIG determined that after the two obtained identification documents using false names, they opened a bank account, applied for a single family mortgage using false documents, and subsequently defaulted on the mortgage. They then declared bankruptcy in order to discharge the debt.

Following a HUD OIG investigation in RICHMOND, VA, limited denials of participation were issued by the HUD Virginia State Office against three attorneys for their roles in the sale of an FHA insured property. The three individuals — buyer, seller, and closing attorney — falsely reported a lower selling price for the property, failed to report a second mortgage held by the seller, and falsified the buyer's down payment. Because HUD suffered no loss after the property's foreclosure, prosecution of the individuals was declined.

## Equity Skimming and Strawbuying

A PALM BEACH, FL real estate agent was sentenced to 27 months imprisonment and 3 years of supervised release for single family equity skimming and conspiracy to defraud HUD and DVA. The agent developed a scheme to defraud individuals who purchased homes with HUD insured or DVA guaranteed mortgages. The agent contacted homeowners who had property that was subject to foreclosure, and offered to purchase the property under the guise that he was interested in resolving their foreclosure suits. The homeowners then sold their property to the agent and gave him the warranty deed, which he purposely did not record so he would not be liable for the mortgages. He rented the properties and collected rental payments, but made no mortgage payments; the properties subsequently went into foreclosure. The loss to HUD was over \$1.2 million and the loss to DVA was over \$300,000. This was a joint investigation by the HUD and DVA OIGs.

In DALLAS, TX, a former real estate investor was sentenced to 62 months imprisonment and 36 months probation upon release, and ordered to pay \$10,000 in restitution to HUD. A joint investigation by the FBI and HUD



OIG found that the investor was the lead perpetrator in a scheme that eventually cost federal agencies, mortgage lenders, and individual mortgagors in excess of \$2.1 million dollars. The Department lost over \$700,000; individual investors lost \$536,000; conventional lenders lost \$867,000; and DVA lost \$85,000. The investor had requested a lighter sentence, pleading mental illness, but after hearing testimony from two psychiatrists, the judge ignored the plea for a reduced sentence. Federal charges of bankruptcy fraud and conspiracy were dropped when the investor agreed to plead guilty to single family equity skimming. The investor's wife and co-conspirator previously entered a negotiated plea and has been sentenced.

Following a HUD OIG investigation, a NASHVILLE, TN individual pled guilty to single family equity skimming. The individual purchased 12 FHA insured properties and rented them out, but failed to make the mortgage payments. The properties went into foreclosure, resulting in a \$400,000 loss to HUD.

A NORFOLK, VA real estate speculator and his wife, who both pled guilty to making false statements to HUD, were sentenced in U.S. District Court. The husband received 21 months in prison and 1 year of supervised release. His wife, who had a minor role in the scheme, was sentenced to 1 year probation. Both were ordered to pay a total of \$10,080 in restitution to HUD. A HUD OIG investigation found that the couple falsified employment, income, and credit information in the purchase of FHA insured properties. They used the falsified loan documents to facilitate their purchase of one property and the purchase of several other properties through strawbuyers. All of the properties went into default, causing a loss to HUD of over \$150,000. This was an FBI/HUD OIG investigation.

A LONG ISLAND, NY developer/former public official was indicted on charges of diverting the proceeds of a \$250,000 development loan for a HUD approved single family development to his personal use. The loan subsequently went into foreclosure. This indictment supplements two previous indictments charging political corruption and tax evasion. The investigation was conducted by the FBI, IRS, HUD OIG, U.S. Attorney's Office, and Postal Inspection Service.

Two PHOENIX, AZ individuals, who had assumed mortgages on 10 properties, were indicted on charges of bankruptcy fraud, conspiracy and single family equity skimming. The two allegedly engaged in a scheme in which they acquired properties with HUD insured or VA guaranteed mortgages, rented out the properties and failed to make the mortgage payments. They then delayed foreclosure proceedings by frequently transferring property titles to several fictitious individuals and by filing 81 bankruptcy petitions using false names and social security numbers. This investigation, requested by the DOJ, was conducted by the HUD and DVA OIGs.

A husband and wife team in MIAMI, FL, were accused of orchestrating an intricate and extensive single family equity skimming scheme. The wife was arrested for assisting her husband in a scheme where, using over 30 aliases, they assumed over 90 FHA insured and VA guaranteed properties, rented them, but made no mortgage payments. The couple received an estimated \$27,000 per month in rental income. The loss to HUD and DVA is over \$4.5 million. The husband has been indicted and is incarcerated while awaiting trial. At the time of his arrest, the husband was preparing to abandon his BAY HARBOR ISLANDS, FL residence. This was an investigation by a task force made up of Agents from the HUD and DVA OIGs.

In TACOMA, WA, a HUD approved Title I lender signed a settlement agreement to indemnify HUD for 31 Title I loans totalling \$713,050. The agreement was reached after the HUD OIG and the HUD Monitoring Division referred information to the Mortgagee Review Board. An ongoing HUD OIG investigation disclosed that these and other loans were obtained using strawbuyers who were paid a fee to obtain the loans. Many of the loans are now in default. As a result of the agreement, HUD has been indemnified against the insurance claims on the loans.





## Community Planning and Development

CPD Programs are designed to provide neighborhood revitalization, improved community facilities and services, and assistance for the homeless. HUD OIG investigations of these programs disclosed cases of bribery, fraud, misuse of grant funds, theft, and false statements.

In CHICAGO, IL, the U.S. Attorney announced that a federal grand jury returned a 40-count indictment against the founder of the Chicago Mental Health Foundation, a not-for-profit corporation. In 1988 and 1989, the Foundation received two Transitional Housing Grants from HUD totaling \$5.3 million, in addition to funding from city and state programs. The indictment charges the founder with defrauding various federal, state and city agencies of at least \$5 million in public grant funds earmarked for the homeless, handicapped and teenaged mothers. The founder is also accused of stealing more than \$500,000 in grant funds and spending the money on such items as lavish parties, furs and political campaign contributions. She is also charged with federal income tax evasion and obstruction of a federal audit.

This investigation, which was conducted by HUD OIG, USPS, and IRS, was initiated as a result of a 1991 HUD OIG audit. Following the audit, HUD terminated the Foundation's grants and transferred them to the City of Chicago.

In announcing the indictment, the U.S. Attorney said: "It is a genuine tragedy when an individual, under the guise of philanthropy and caring for the well-being of the downtrodden, abuses and misuses social welfare programs for her own personal gain. These public funds were supposed to assist some of the most underprivileged members of society, but were used instead to enrich the defendant."

A LONG ISLAND, NY developer was sentenced to 5 years in prison and 3 years supervised release, and ordered to pay \$412 million in restitution to a private lender. The developer pled guilty to bribing public officials for approval of housing subdivisions, some of which were HUD approved, and defrauding the private lender of \$6 billion to finance the developments and political payoffs. This investigation was conducted by the U.S. Attorney's Office, USPS, IRS, FBI and HUD OIG.

An individual in MINNEAPOLIS, MN, was sentenced to 33 months incarceration to be followed by 2 years probation, and ordered to pay \$5,000 in restitution to the Minnesota Department of Trade and Economic Development, for his part in a bribery scheme that defrauded HUD of an estimated \$282,000. He was one of two bank officials who accepted bribes to create false letters of credit relating to a Small Cities Grant Program loan. This was an FBI/HUD OIG investigation.

Following a guilty plea, a local community development grants consultant in SCRANTON, PA, was sentenced to 3 months of home confinement with electronic monitoring, 2 years probation, and ordered to pay \$4,140 in restitution and fines. The consultant was also suspended by HUD pending debarment action. The consultant, hired to administer over \$100,000 in state and federal funds, submitted at least seven fraudulent certifications for HUD funding, totaling over \$21,000 for incomplete housing renovations. This was a HUD OIG investigation.

In PHILADELPHIA, PA, a borrower, a real estate broker, and a local nonprofit CDBG subrecipient official were charged in a federal indictment with one count each of conspiracy to defraud HUD relative to the origination of a \$47,125 FHA insured mortgage. Additionally, the borrower and the official were charged with two counts each of



making a false statement to obtain an FHA insured mortgage. The real estate broker was also charged with four counts of false statements. This was a joint FBI/HUD OIG investigation.

A general contractor in SUFFOLK, VA, who previously pled guilty to submitting false requests for CDBG funded rental rehabilitation construction payments on a 12-unit apartment complex, was sentenced to 3 years probation and ordered to make restitution of at least \$25,000 to various subcontractors who performed work at the complex but were not paid. An investigation by the FBI and HUD OIG Offices of Audit and Investigation disclosed that the contractor submitted requests for payment which falsely certified that all funds previously disbursed had been properly distributed, when in fact some of the funds were diverted to other projects and personal obligations.

HUD OIG and the MAHONING COUNTY, OH Sheriff's Office arrested two Mahoning County building inspectors on bribery related charges. The inspectors, whose salaries were paid with CDBG funds, were hired to inspect CDBG funded properties. They were paid bribes by contractors to accept substandard work on these properties.

In PHILADELPHIA, PA, the executive director of Montgomery County Housing Services and two public officials were terminated from employment by the Montgomery County Commissioner's Office. The termination resulted from a review by the HUD OIG Offices of Audit and Investigation which uncovered numerous instances of conflict of interest and gross mismanagement committed by the director while he supervised HUD funded rehabilitation programs. The conflicts of interest included solicitation of county contractors to perform work at their respective private and commercial properties at below market rates.

## Multifamily Housing Programs

A HUD OIG investigation disclosed that a former official with the LOS ANGELES Community Development Commission (CDC) and later the City of Pomona Housing Authority received bribes in exchange for assistance in obtaining Section 8 rental assistance benefits. The individual falsified application forms to make it appear that a co-conspirator qualified for Section 8 benefits and shared part of the payments with the co-conspirator. Both individuals were indicted on charges of conspiracy to accept bribes and making false statements. HUD insures mortgages to finance the construction or rehabilitation of multifamily housing developments. During this reporting period, HUD OIG investigations uncovered embezzlement, false statements, mail fraud, kickbacks, and an arson-for-profit scheme.

The president and owner of a development company in STUDIO CITY, CA, was indicted on 16 felony counts, including mail fraud, false statements, impeding a federal audit, and engaging in monetary transactions in criminally derived property. The owner allegedly devised and participated in a scheme to defraud and obtain money from HUD under the Flexible Subsidy Program. He received \$1.6 million in subsidy funds to repair three multifamily projects damaged by an earthquake. The indictment alleges that the owner used \$100,000 to pay off a personal debt and \$35,000 to purchase a vehicle, transferred \$200,000 to his personal trust, and withdrew \$63,210 to purchase a house. He also allegedly fabricated contract bids and falsely stated that \$497,000 worth of construction work was completed. A HUD OIG audit identified the abuse, and further evidence to support the federal charges was obtained through a joint HUD OIG audit and investigation effort.

The former administrator of the Village of New Square, a small community in ROCKLAND COUNTY, NY, was indicted on charges that he embezzled more than \$750,000 from a HUD funded multifamily complex and a nursing



agency. The administrator voluntarily surrendered at the U.S. Attorney's Office in response to the 29-count indictment which charged him with false filings to HUD and the IRS, embezzling HUD funds, and tax evasion.

The indictment was the result of a long-term investigation initiated by the U.S. Attorney's Office, HUD OIG and IRS/Criminal Investigations Division. The inquiry focused on allegations that the administrator laundered approximately \$393,000 of \$750,000 in the more than 100 bank accounts belonging to the Yeshiva of New Square, a religious school. The \$393,000 was eventually deposited in the administrator's bank account. The administrator faces a maximum sentence of up to 20 years in prison and a fine of \$500,000, or twice the value of the property involved in the transaction.

A SYRACUSE, NY property manager was found guilty of eight counts of submitting false statements and one count of conspiracy. He was sentenced to 5 years probation, 6 months home detention, 200 hours of community service, and fined \$10,000. The on-site manager for the same company pled guilty and was sentenced to 2 years probation, 75 hours of community service and fined \$3,000. The individuals defrauded HUD by extending the leases for phantom tenants on vacant units to give the appearance of continuing occupancy, and diverting approximately \$150,000 from the development. This investigation was conducted by the FBI and HUD OIG.

Three former officers of a PHILADELPHIA, PA realty management company, which manages HUD assisted projects in several states, pled guilty to accepting at least \$120,000 in kickbacks in return for awarding caulking and waterproofing contracts at HUD projects in NEW YORK, the VIRGIN ISLANDS, WEST VIRGINIA, and the PHILADELPHIA area. In addition, a contractor, who owned a caulking and waterproofing company, pled guilty and was sentenced for paying kickbacks in excess of \$120,000 to the three former officers. The contractor was sentenced to 10 months home detention, 10 months in a halfway house and 3 years probation. This investigation was conducted jointly by the FBI, IRS, and HUD OIG.

Following a joint FBI/HUD OIG investigation, a former management agent in WASHINGTON, DC, was sentenced to 12 months incarceration (suspended), 6 months home detention, and 3 years probation, fined \$37,500, and ordered to perform 1,000 hours community service. The investigation disclosed that the management agent withdrew \$12,500 from a HUD insured cooperative general fund checking account and used those funds to pay the expenses of his management company.

In NEW YORK, NY, the president/owner and his 26 realty and management companies were served notice of debarment by HUD. The individual, who is also a Section 8 landlord, was convicted in U.S. District Court on charges of arson resulting in death, conspiracy, mail fraud and tampering with a witness. An FBI investigation disclosed that the individual burned down one of his properties in an arson-for-profit insurance fraud scheme. A New York City fire fighter died as a result of the arson. A U.S. Probation Officer notified HUD OIG of the matter so that administrative sanctions could be taken against the individual and his companies.

## Section 8 Rental Assistance

Although most rental assistance recipients use their assistance for its intended purpose, HUD OIG investigations have found that some circumvent program regulations by obtaining assistance under false pretenses. These investigations may be conducted by Task Forces or by individual Special Agents.

Investigations conducted by the HUD Fraud Task Force operating out of New York City have discovered instances of false statements, forgery, mail fraud, and possession of false U.S. identification documents. Agencies



represented on the Task Force include the HUD OIG, FBI, USPS, USSS, and the Nassau County Special Investigations Bureau. Some of the results from this reporting period follow.

Two individuals in LONG ISLAND, NY, were arrested for defrauding the HUD Section 8 Program and the Social Security Administration (SSA) Disability Program of \$17,298. The individuals, a former Long Beach Housing Authority employee and an employee of the Nassau County Office of Housing and Intergovernmental Affairs, were charged with grand larceny, defrauding the government, and offering false instruments for filing in a complaint filed by the Nassau County District Attorney's Office Special Investigations Bureau. The Nassau County employee was subsequently suspended without pay pending the disposition of her arrest. Extensive coverage of the arrests was provided by local news media.

A former employee of the NEW YORK CITY Human Resources Administration was arrested on felony charges of grand larceny. The individual fraudulently obtained more than \$25,500 in Section 8 rental assistance by forging signatures while employed, falsely reporting her annual income, and obtaining two social security numbers in the names of nonexistent children in order to qualify for assistance.

A husband and wife, both employees of the SOUTH NASSAU COUNTY, NY Hospital, were arrested for fraudulently receiving \$21,038 in HUD Section 8 rent subsidy payments since 1991. They conspired to withhold reporting their true total income from the Long Beach Housing Authority, submitted notarized affidavits of unemployment and bogus verifications of income and hospital letterhead, forged signatures, and falsely reported on their HUD Section 8 recertification forms that the husband was unemployed from 1991 through 1994.

A sweep of the Ocean View I assisted housing development in FAR ROCKAWAY, NY, resulted in the arrest of five individuals who were charged with making false statements to HUD, mail fraud, possession of false U.S. identification documents and fraudulent use of social security numbers. The individuals arrested were able to reside in assisted housing by using social security numbers that were never issued by SSA, or numbers assigned to other persons. Their fraud scheme has cost the Department nearly \$60,000 since 1991.

Two NEW YORK, NY Department of Labor employees were sentenced following a joint investigation by the HUD, Labor, SSA, Education and New York City Housing Authority OIGs and the USPS. One individual was sentenced to 4 years probation and drug treatment, and was ordered to pay \$6,000 in restitution. The individual pled guilty to public assistance fraud, making false statements to HUD on behalf of a co-conspirator, and lying to a HUD OIG Special Agent. The second individual was sentenced to 5 years probation, 6 months home detention, ordered to make restitution of \$38,029, pay a \$50 special assessment, and undergo mental health treatment. The individual fraudulently received \$22,755 in public assistance benefits, \$11,944 in HUD rent subsidy payments, and \$8,825 in Department of Education PELL grant funds for which she was ineligible.

Following a HUD OIG investigation, a Section 235 mortgagor/Section 8 landlord was sentenced to 2 years probation, 6 months home detention, fined \$2,000, and ordered to pay restitution of \$22,215 to the City of DES MOINES, IA, and HUD. The individual made false statements to HUD by reporting that she occupied a property from November 1992 to June 1995 and received \$6,600 in Section 235 mortgage assistance benefits. Public housing authority records show that the individual, as landlord, received \$15,000 in rental assistance on behalf of Section 8 residents who occupied the same property during the same time period.

A ST. LOUIS, MO Social Services Public Aid Caseworker, who is also a former Section 8 resident, was sentenced to 2 years probation, 4 months home confinement, 40 hours of community service, and a \$50 assessment to the court. Restitution of a \$19,204 loss to HUD was waived because of her financial inability to repay the Department. The caseworker was previously sentenced for failing to report her true income to the St. Louis Housing Authority. This investigation was conducted by HUD OIG and Missouri Social Services Office of Investigation.



Following a HUD OIG investigation in ALEXANDRIA, VA, two former public housing residents, previously indicted for fraudulently obtaining \$22,529 in Section 8 rental subsidies, signed plea agreements. The two, who are husband and wife, knowingly underreported their household income by omitting the wife's employment income in order to receive housing subsidy.

A BRISTOL, VA public housing resident, who was previously convicted for failing to report employment and income, was sentenced to 3 years probation, including 6 months home detention, and ordered to pay \$12,192 in restitution to HUD. The resident was evicted by the Bristol Housing Authority following her guilty plea. This investigation was conducted by the HUD OIG, Bristol Housing Authority and local police.

In NASHVILLE, TN, a Section 8 resident was indicted by a federal grand jury on 184 counts of mail fraud and submitting false statements. By creating false identities, the resident received Section 8 rent subsidy benefits for three units in Georgia and Tennessee. In total, the resident defrauded HUD and the Department of Agriculture by receiving over \$85,000 in benefits to which she was not entitled. This investigation was conducted by the HUD and Agriculture OIGs.

A KANSAS CITY, MO public housing resident, who was also once president of a resident management corporation, was indicted on charges of making false statements to receive assistance. The resident did not report all his income when recertifying for assistance. The investigation was conducted by the FBI and HUD OIG.

A Section 8 resident in COON RAPIDS, MN, pled guilty to two counts of felony theft of public assistance. An investigation by HUD OIG and the Anoka County Attorney's Office disclosed that the resident received nearly \$36,000 in Section 8 assistance to which she was not entitled by falsifying her household composition and income.

Following a HUD OIG investigation in SEATTLE, WA, an arrest warrant was issued for a former public housing resident who had pled guilty to submitting a false statement and had agreed to pay HUD \$15,705 in restitution. Since the former resident violated several conditions of her bail release, the U.S. Pretrial Services Officer and the Assistant U.S. Attorney requested that the warrant be issued. The resident failed to appear for her scheduled sentencing.

## Public and Indian Housing Programs

Local public and Indian housing authorities develop, own and operate public housing developments. In addition to financial assistance, HUD furnishes technical assistance in managing these developments. During this reporting period, HUD OIG investigations disclosed instances of fraud, conspiracy, and false statements to HUD.

An individual who had served as Manager of the HUD MEMPHIS, TN Office, Special Assistant to the Deputy Secretary for Single Family Housing, Deputy Regional Administrator in Chicago, and most recently the Deputy Executive Director, Memphis Housing Authority, was sentenced to 16 months in prison followed by 2 years of supervised release, a \$10,000 fine and a \$100 special assessment fee. The individual filed loan documents with two banks on which he failed to disclose liabilities and other pertinent data required under banking laws. Both banks suffered losses amounting to approximately \$80,000 when he declared bankruptcy in August 1991. The individual was previously convicted of conspiracy and accepting a \$10,000 bribe in return for providing information concerning a criminal investigation. This investigation was conducted jointly by the FBI and HUD OIG.

In SEATTLE, WA, a former public housing resident and her unreported live-in spouse were sentenced for bank fraud and fraudulent use of credit card accounts and cellular telephones. In May 1995, the two were arrested by



King County Police and Agents from the Secret Service and HUD OIG. The spouse was incarcerated for 30 months and will be on supervised probation for 5 years upon release. He is required to pay immediate restitution of \$67,936 to the court for several victims of credit card account fraud, in addition to \$13,740 in restitution jointly with his spouse. The former resident received 5 years probation. Both individuals forfeited several pieces of electronic equipment used in the production of fraudulent credit/bank/ identification documents. The resident was evicted from public housing shortly after her arrest.

A public housing resident was sentenced to 4 months incarceration, followed by 4 months home detention and 3 years supervised release, and was ordered to pay \$66,659 in restitution to the MINNEAPOLIS, MN Housing Authority for his part in a fraudulent rental subsidy scheme. This was a HUD OIG investigation.

A real estate broker, who was a co-conspirator, was sentenced to 4 years probation and 6 months home detention with an electronic monitor. The broker laundered stolen Section 8 landlord checks through his business accounts, and then split the proceeds with a former DENVER, CO Housing Authority employee. The broker was ordered to pay \$8,554 in restitution to all victims, the Denver Housing Authority and Colorado National Bank. A \$50 fee was also assessed by the court. This was a HUD OIG investigation.

A public housing resident in TACOMA, WA, was found guilty of theft and sentenced to 90 days incarceration. An investigation, conducted by the Illegal Income Investigation Task Force, disclosed that the resident was one of many who had been coached by dishonest staff from the Washington State Department of Social and Health Services (DSHS) to feign illness to obtain social security, housing and other entitlement benefits for which they would not normally be eligible. This Task Force is composed of the FBI, HUD OIG, INS, DSHS, Washington State Patrol, and SSA.

HUD's debarment of the resident commissioner of the City of WHITE PLAINS, NY Housing Authority was upheld in a final determination. The commissioner was convicted on state charges of attempting to obtain a bribe from a contractor in return for promised preferential consideration in the awarding of a contract. This was a HUD Fraud Task Force investigation conducted jointly by the HUD OIG, White Plains Police Department and the Westchester County District Attorney's Office.

**If you wish to see the Appendices that accompany this report, you may request a printed copy by calling Gina Trapp, Office of Inspector General, Office of Management and Policy, at (202) 708-3444, ext 195; or by sending an electronic message to [Frances\\_V.\\_Trapp@HUD.GOV](mailto:Frances_V._Trapp@HUD.GOV)**

